Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary_st@leg.wa.gov

Executive Committee

November 18, 2003

9:00 - 9:30 AM – Before Full Committee Meeting
12:30 - 3:00 PM – After Full Committee Meeting

Senate Conference Rooms A-B-C, Olympia

AGENDA

9:00 AM	(A)	Part-time ESAs – Bob Baker
9:10 AM	(B)	Richard Warbrouck, Retired Firefighters
9:20 AM	(C)	Spring Orientation – Sandra Granger
9:30 AM		BREAK FOR FULL COMMITTEE
12:30 PM	(D)	Public Safety – Reps. Alexander & Fromhold
12:50 PM	(E)	LEOFF 1 Survivor Benefits – Bob Baker
1:00 PM	(F)	Post-retirement Employment Report and Extended School Year Post-retirement Employment – Bob Baker
1:25 PM	(G)	Mandatory Retirement Age in State Patrol – Laura Harper
1:35 PM	(H)	Recovery of Lost Purchasing Power (25 Years of Service/Retired 20 Years) – Bob Baker
2:00 PM	(I)	Military Service Credit – Pat Thompson
2:10 PM	(J)	03 Early Retirement Proposals – Bob Baker
2:45 PM	(K)	Smoothing Corridor – Matt Smith
3:00 PM	(L)	Executive Session on Personnel Issues
3:30 PM		Adjourn

(360) 753-9144
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TDD: 1-800-635-9993

SELECT COMMITTEE ON PENSION POLICY

Proposed Meeting Schedule

(November 4, 2003)

August 19, 2003

9 AM - 12:30 PM, Senate Hearing Room 4

Election of Officers
Role of SCPP:
  Review of Ch 295
  Open Public Meetings Act
  Ethics Law
Rules of Procedure
Session Update
Possible Interim Issues
Meeting Schedule

September 16, 2003

1 - 3:30 PM, Senate Hearing Room 4

Election of Chair and Vice Chair
Rules of Procedure
Post-retirement Employment Report
PERS Public Safety
Part Time Educational Staff Associates
Meeting Schedule

October 21

10 AM - 12:30 PM

PERS Public Safety Committee Report
Post-retirement Employment Report
Projected Rates and Funding
State Investment Board
Plan 3 Vesting

November 18

9:30 AM - 12:30 PM

Recovery of Lost Purchasing Power
Public Safety Subcommittee Report
LEOFF 1 Survivor Benefits
Post-retirement Employment Report
Extended School Year Post-ret Employment
Mandatory Ret. Age State Patrol, 60 to 65
State Patrol Death-in-Service Survivor Benefit
Age 66 COLA
Plan 3 Vesting

December 16

10 AM - 12:30 PM

Age 70-1/2
Opt In-Opt Out

December Agenda Planner

FULL COMMITTEE AGENDA

(1) Age 70-1/2 – Public Hearing/Possible Executive Session

(2) Opt In-Opt Out – Public Hearing/Possible Executive Session

(3)

(4)

(5)

(6)

EXECUTIVE COMMITTEE AGENDA

(A) Teacher Reciprocity – NCTR Letter

(B) OSA Open House

(C)

(D)

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DRAFT MINUTES
EXECUTIVE COMMITTEE MEETING

October 21, 2003

The Executive Committee of the Select Committee on Pension Policy met in Senate Conference Rooms A-B-C, on October 21, 2003.

Executive Committee members attending:

Representative Steve Conway, Chair
Senator Shirley Winsley, Vice Chair
John Charles
Leland Goeke
David Westberg, alternate for J. Pat Thompson

Other members attending:

Representative Alexander
Elaine M. Banks
Senator Carlson
Richard Ford
Senator Fraser
Representative Fromhold
Robert Keller
Corky Mattingly
Representative Pflug
Diane Rae

Representative Conway, Chair, called the meeting to order at 9:05 AM

(1) Actuarial Valuation Report
Matt Smith, State Actuary, briefly reviewed the layout and contents of the actuarial Valuation Report.

(2) Public Safety Benefits
Representative Fromhold, Co-chair, briefed the Committee on the PERS Public Safety Subcommittee public hearing October 6, 2003. The Subcommittee plans to present their recommendations at the November 18th Full Committee meeting.

(3) JCPP Bills That Did Not Pass in 2003
Bob Baker, Senior Research Analyst, reviewed the "Age 70½ ," Opt In/Opt Out" and the "Age 66 COLA" bills.

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It was moved that the "Age 70½" issue be scheduled for the December Full Committee meeting. Seconded.

MOTION CARRIED

It was moved that the "Opt In/Opt Out" issue be scheduled for the December Full Committee meeting. Seconded.

MOTION CARRIED

It was moved that "Age 66 COLA" issue be scheduled for the November Full Committee meeting. Seconded.

MOTION CARRIED

(4) School District Payroll Reporting (As Paid/As Earned)

Bob Baker, Senior Research Analyst, reviewed the handout entitled, "School District Payroll Reporting (As Paid/As Earned)."

It was moved that "School District Payroll Reporting (As Paid/As Earned)" be scheduled for further discussion at a Full committee meeting. Seconded.

It was moved that the "School District Payroll Reporting (As Paid/As Earned)" issue be reviewed during the 2004 interim for possible legislation in 2005. Seconded.

MOTION CARRIED

(5) HB 2180 - Early Retirement

It was moved to have a discussion on HB 2180 "Early Retirement" at the November Executive Committee meeting. Seconded.

MOTION CARRIED

(6) Mandatory Retirement Age in State Patrol, 60 - 65

Bob Baker, Senior Research Analyst, reviewed the handout entitled, "Mandatory Retirement Age in State Patrol, 60 - 65."

It was moved that "Mandatory Retirement Age in State Patrol, 60-65" be scheduled for the November Full Committee meeting. Seconded.

MOTION CARRIED

(7) State Patrol Death-in-Service Survivor Benefit

Bob Baker, Senior Research Analyst, reviewed the handout entitled, "State Patrol Death-in-Service Survivor Benefit."

It was moved that "State Patrol Death-in-Service Survivor Benefit" be scheduled for the November Full Committee meeting. Seconded.

MOTION CARRIED

(8) Other Issues

Committee members discussed the idea of having a one day orientation session with NCSL sometime in 2004. Staff was directed to contact NCSL and bring a proposal to the November Executive Committee meeting.

The meeting adjourned at 10:05AM to attend the Full Committee meeting.

Representative Conway, Chair, called the meeting to order at 1:00 PM.

(1) Military Service Credit

It was moved that "Military Service Credit" report be scheduled for the November Executive Committee meeting. Seconded.

MOTION CARRIED

(2) Pan 3 Vesting

It was moved that the "Plan 3 Vesting" issue be scheduled for the November Full Committee meeting. Seconded.

MOTION CARRIED

(3) Recovery of Lost Purchasing Power - Minimum Benefit to Cover Health Care Cost

Robert Baker, Senior Research Analyst, reviewed the handout entitled, "Recovery of Lost Purchasing Power - Minimum Benefit to Cover Health Care Cost."

It was moved that "Recovery of Lost Purchasing Power" be scheduled for the November Full Committee meeting. Seconded.

MOTION CARRIED

(4) Part-time Educational Staff Associates

Robert Baker, Senior Research Analyst, reviewed the handout entitled, "Part-time Educational Staff Associates."

It was moved that "Part-time Educational Staff Associates" be scheduled for the November Executive Committee meeting. Seconded.

MOTION CARRIED

(5) Closed Executive Session on Personnel Issues

The meeting adjourned at 2:55 PM.

Part-time ESAs

(November 12, 2003)

Issue

TRS 1 Educational Staff Associates (ESAs) employed less than full time are not allowed to annualize their salaries when calculating their average final compensation, and thus do not receive proportionate retirement benefits, with the exception of counselors.

Staff

Robert Wm. Baker (360) 586-9237

Members Impacted

Of the estimated 417 TRS members employed as ESAs (other than counselors) receiving less than full service credit, 41 are plan 1 members.

Current Situation

There are 7 Educational Staff Associate positions employed by schools districts: School Counselor, Psychologist, Social Worker, Nurse, Physical Therapist, Occupational Therapist, and Speech Language Pathologist or Audiologist. Similar to teachers, those engaged in these activities must be certified.

According to the Superintendent of Public Instruction, the educational standards and certification course for these positions may be more rigorous than that of teachers. Counselors, psychologists, social workers, and speech language pathologist/audiologists all require a Master's degree plus passage of a state approve 30 hour certification course. Occupational therapists, physical therapists, and nurses require a Bachelor's degree plus the same 30 hour certification course.

The Legislative Evaluation and Accountability Program (LEAP) quantifies the education and training requirements for these positions in what is called a ***mix factor***. A position with a mix factor of 1 requires a Bachelor's degree and no experience. In the latest School District Personnel Summary Profiles for the 2002-2003 school year, the mix factors for ESAs averaged 1.67 while the mix factor for teachers averaged 1.58.

Policy Analysis

TRS 1 statutes allow less-than-full-time teachers, librarians, and counselors to annualize their salaries upon retirement so as to receive proportionate retirement benefits. Counselors are the one category of Certified Educational Staff Associates (ESAs) that are currently treated consistently with teachers.

TRS 1 members receive a full year of service credit if they work 4/5ths or more of the school year. A portion of a service credit year is earned at the completion of a state fiscal year when employed for less than 4/5ths of a school year but more than 20 days per school year.

Stakeholder Input

See attachment

Option

Allow currently excluded TRS 1 ESAs to annualize their salaries for determining their average final compensation and thus receive proportionate retirement benefits.

Estimated Fiscal Impact

We estimate that the benefit for a typical member impacted by this bill would double; actual annualization would vary for each member. We estimate that there are currently 41 members who would be affected by this proposal. These 41 members currently have an average of 12.4 years of service, an estimated average final compensation of $25,283 and a benefit of $6,275 before this change. After this change their estimated average final compensation would be $46,812 and their current benefit would increase to $11,619

Assumptions

In absence of individual member data we assumed that the member's pay would increase in proportion to their fractional service credit. In other words, a member who currently receives half a year of service credit, would have their average final compensation doubled for this purpose.

Actuarial Determinations

This benefit would impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

Teachers Retirement System Plan 1			
(Dollars in Millions)	**Current**	**Increase**	**Total**
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	$10,209	$2.6	$10,212
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	$586	$2.6	$589
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	$236	$2.1	$238
Required Contribution Rate	3.19%	**0.0046%**	3.19%

Fiscal Budget Determinations

None. The estimated increase in the required employer contribution rate is less than .005% and therefore will not round up to the minimum increase of .01%.

STATE OF WASHINGTON

PROFESSIONAL EDUCATOR STANDARDS BOARD

Old Capitol Building, P.O. Box 47236 • Olympia, WA 98504-7236 • (360) 725-6275 • Fax (360) 586-4548
www.pesb.wa.gov

October 29, 2002

The Honorable Don Carlson
Washington State Senator
Chair, Joint Committee on Pension Policy
P. O. Box 40449
Olympia, WA 98504-0449

Dear Senator Carlson:

According to RCW 41.32.010, public school district or community college employees in an instructional position employed less than full-time and participating in the Teachers' Retirement System (TRS) may elect to have earnable compensation defined as the compensation the member would have received in the same position if employed on a regular full-time basis for the same contract period. This is for the purpose of calculating retirement benefits to ensure that members who receive fractional service credit under RCW 41.32.270 receive benefits proportional to those received by members who have received full-time service credit. The RCW defines "instructional position", however, as a position in which more than seventy-five percent of the member's time is spent as a classroom instructor, (including office hours), a librarian, or a school counselor. ESAs typically spend more than 75% of their day in direct contact with students, just not as "classroom instructors" as required by the current statute.

The Professional Educator Standards Board advises state policymakers on issues affecting certified Washington educators, including certified educational staff associates (ESAs). Through our work we've become keenly aware of the crucial role all ESAs play in supporting student learning. In addition to the role of school counselors referenced in RCW 41.32, certified ESAs also include school psychologists, social workers, speech and language pathologists, audiologists, school nurses, school occupational therapists, and school physical therapists.

More than ever, children arrive at school doors with complex needs that are real barriers to learning. By addressing the physical, emotional, social and educational needs of the whole child, ESAs make it possible for learning to occur. We, along with the Washington Education Association, encourage the Joint Committee on Pension Policy to consider recommending to the legislature a change in current RCW that recognizes the contribution of these ESAs and expands the definition of members eligible for this provision to include all ESAs. We roughly estimate this provision would affect at the most 600 certified Educational Staff Associates, but recognize that the Office of the State Actuary is better positioned to determine the true fiscal impact of this policy change.

We realize, and apologize, that this is quite late in the legislative interim process. We appreciate the workload the JCPP has taken upon itself this interim, and hope that you can find time to address this one small additional issue.

Sincerely,

Carolyn D Bradley

Carolyn Bradley
Chair

cc: Members of the Joint Committee on Pension Policy

Retired Firefighters of Washington

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Richard Warbrouck
President

Bob Burtch
Secretary

November 18, 2003

Representative Steve Conway
Chair of the Select Committee on Pension Policy
Olympia, Washington

Dear Representative Conway,

Please find attached:

1. A copy of SB 5090.
2. Amended language on page 4 and 5 of SB 5090 which I gave to Eric Sund of the Senate Ways and Means Committee to look over.
3. A copy of an e-mail message from Jan Ford, the Secretary of the Island County Police and Fire Pension Board.
4. I have also included a brief explanation of four pension issues that I would like to bring to the attention of the Select Committee on Pension Policy for their consideration.

Thank you.

Sincerely,

R.C. Warbrouck

Richard C. Warbrouck

PENSION BOARD ELECTIONS

Z-0294.1

SENATE BILL 5090

State of Washington **58th Legislature** **2003 Regular Session**

By Senators Carlson, Fraser, Spanel and Rasmussen; by request of Joint Committee on Pension Policy

Read first time 01/15/2003. Referred to Committee on Ways & Means.

AN ACT Relating to determining which fire fighters or law enforcement officers may elect or be elected to certain pension and disability boards; and amending RCW 41.16.010, 41.16.020, and 41.26.110.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.16.010 and 1973 1st ex.s. c 154 s 61 are each amended to read as follows:

For the purpose of this chapter, unless clearly indicated by the context, words and phrases shall have the following meaning:

(1) "Beneficiary" shall mean any person or persons designated by a fireman in a writing filed with the board, and who shall be entitled to receive any benefits of a deceased fireman under this chapter.

(2) "Board" shall mean the municipal firemen's pension board.

(3) "Child or children" shall mean a child or children unmarried and under eighteen years of age.

(4) "Contributions" shall mean and include all sums deducted from the salary of firemen and paid into the fund as hereinafter provided.

(5) "Disability" shall mean and include injuries or sickness sustained as a result of the performance of duty.

(6) "Fireman" or "fire fighter" shall mean any person regularly or temporarily, or as a substitute, employed and paid as a member of a fire department, who has passed a civil service examination for fireman and who is actively employed as a fireman; and shall include any "prior fireman".

(7) "Fire department" shall mean the regularly organized, full time, paid, and employed force of firemen of the municipality.

(8) "Fund" shall mean the firemen's pension fund created herein.

(9) "Municipality" shall mean every city and town having a regularly organized full time, paid, fire department employing firemen.

(10) "Performance of duty" shall mean the performance of work and labor regularly required of firemen and shall include services of an emergency nature rendered while off regular duty, but shall not include time spent in traveling to work before answering roll call or traveling from work after dismissal at roll call.

(11) "Prior fireman" shall mean a fireman who was actively employed as a fireman of a fire department prior to the first day of January, 1947, and who continues such employment thereafter.

(12) "Retired fireman" shall mean and include a person employed as a fireman and retired under the provisions of chapter 50, Laws of 1909, as amended.

(13) "Widow or widower" means the surviving wife or husband of a retired fireman who was retired on account of length of service and who was lawfully married to such fireman; and whenever that term is used with reference to the wife or former wife or husband or former husband of a retired fireman who was retired because of disability, it shall mean his or her lawfully married wife or husband on the date he or she sustained the injury or contracted the illness that resulted in his or her disability. Said term shall not mean or include a surviving wife or husband who by process of law within one year prior to the retired fireman's death, collected or attempted to collect from him or her funds for the support of herself or himself or for his or her children.

Sec. 2. RCW 41.16.020 and 1988 c 164 s 2 are each amended to read as follows:

There is hereby created in each city and town a municipal firemen's pension board to consist of the following five members, ex officio, the mayor, or in a city of the first class, the mayor or ((~~his~~)) a designated representative who shall be an elected official of the city, who shall be chairman of the board, the city comptroller or clerk, the chairman of finance of the city council, or if there is no chairman of finance, the city treasurer, and in addition, two regularly employed or retired ((~~firemen~~)) fire fighters elected by secret ballot of ((~~the~~)) those employed and retired ((~~firemen. Retired members who are subject to the jurisdiction of the pension board have both the right to elect and the right to be elected under this section~~)) fire fighters who are subject to the jurisdiction of the board. The members to be elected by the ((~~firemen~~)) fire fighters shall be elected annually for a two year term. The two ((~~firemen~~)) fire fighters elected as members shall, in turn, select a third eligible member who shall serve as an alternate in the event of an absence of one of the regularly elected members. In case a vacancy occurs in the membership of the ((~~firemen~~)) fire fighters or retired members, the members shall in the same manner elect a successor to serve ((~~his~~)) the unexpired term. The board may select and appoint a secretary who may, but need not be a member of the board. In case of absence or inability of the chairman to act, the board may select a chairman pro tempore who shall during such absence or inability perform the duties and exercise the powers of the chairman. A majority of the members of ((~~said~~)) the board shall constitute a quorum and have power to transact business.

Sec. 3. RCW 41.26.110 and 2000 c 234 s 1 are each amended to read as follows:

(1) All claims for disability shall be acted upon and either approved or disapproved by either type of disability board ((~~hereafter~~)) authorized to be created in this section.

(a) Each city having a population of twenty thousand or more shall establish a disability board having jurisdiction over all members employed by ((~~said~~)) those cities and composed of the following five members: Two members of the city legislative body to be appointed by the mayor((~~,~~)); one active or retired fire fighter employed by or retired from the city to be elected by the fire fighters employed by or retired from the city((~~,~~)) who are subject to the jurisdiction of the board; one active or retired law enforcement officer employed by or retired from the city to be elected by the law enforcement officers employed by or retired from the city who are subject to the jurisdiction of the board; and one member from the public at large who resides within the city to be appointed by the other four members ((~~heretofore~~)) designated in this subsection. ((~~Retired members who are subject to the jurisdiction of the board have both the right to elect and the right to be elected under this section.~~)) Only those active or retired fire fighters and law enforcement officers who are subject to the jurisdiction of the board have the right to elect under this section. All fire fighters and law enforcement officers employed by or retired from the city are eligible for election. Each of the elected members shall serve a two year term. The members appointed pursuant to this subsection shall serve for two year terms: PROVIDED, That cities of the first class only, shall retain existing firemen's pension boards established pursuant to RCW 41.16.020 and existing boards of trustees of the relief and pension fund of the police department as established pursuant to RCW 41.20.010 which such boards shall have authority to act upon and approve or disapprove claims for disability by fire fighters or law enforcement officers as provided under the Washington law enforcement officers' and fire fighters' retirement system act.

(b) Each county shall establish a disability board having jurisdiction over all members residing in the county and not employed by a city in which a disability board is established. The county disability board so created shall be composed of five members to be chosen as follows: One member of the legislative body of the county to be appointed by the county legislative body((~~,~~)); one member of a city or town legislative body located within the county which does not contain a city disability board established pursuant to subsection (1)(a) of this section to be chosen by a majority of the mayors of such cities and towns within the county which does not contain a city disability board((~~,~~)); one active fire fighter or retired fire fighter employed by or retired from the county to be elected by the fire fighters employed or retired in the county who are not employed by or retired from a city in which a disability board is established((~~,~~)) and who are subject to the jurisdiction of the board; one law enforcement officer or retired law enforcement officer employed by or retired from the county to be elected by the law enforcement officers employed in or retired from the county who are not employed by or retired from a city in which a disability board is established((~~,~~)) and who are subject to the jurisdiction of the board; and one member from the public at large who resides within the county but does not reside within a city in which a city disability board is established, to be appointed by the other four members ((~~heretofore~~)) designated in this subsection. However, in counties with a population less than sixty thousand, the member of the disability board appointed by a majority of the mayors of the cities and towns within the county that do not contain a city disability board must be a resident of one of the cities and towns but need not be a member of a city or town legislative body. ((~~Retired members who are subject to the jurisdiction of the board have both the right to elect and the right to be elected under this section.~~)) Only those active or retired fire fighters and law enforcement officers who are subject to the jurisdiction of the board have the right to elect under this section. All fire fighters and law enforcement officers employed by or retired from the county are eligible for election. All members appointed or elected pursuant to this subsection shall serve for two year terms.

(2) The members of both the county and city disability boards shall not receive compensation for their service upon the boards but ((~~said~~)) the members shall be reimbursed by their respective county or city for all expenses incidental to such service as to the amount authorized by law.

(3) The disability boards authorized for establishment by this section shall perform all functions, exercise all powers, and make all such determinations as specified in this chapter.

--- **END** ---

SB 5090 2005 RCW 41.16.— 41.26.110
41.20.010

jurisdiction of the board; and one member from the public at large who resides within the city to be appointed by the other four members ((~~heretofore~~)) designated in this subsection. ((~~Retired members who are subject to the jurisdiction of the board have both the right to elect and the right to be elected under this section~~)) Only those active, or retired fire fighters and law enforcement officers who are subject to the jurisdiction of the board have the right to elect under this section. All fire fighters and law enforcement officers employed by or retired from the city are eligible for election. Each of the elected members shall serve a two-year term. The members appointed pursuant to this subsection shall serve for two-year terms: PROVIDED, that cities of the first class only, shall retain existing firemen's pension boards established pursuant to RCW 41.16.020 and existing boards of trustees of the relief and pension fund of the police department as established pursuant to RCW 41.20.010 which such boards shall have authority to act upon and approve or disapprove claims for disability by fire fighters or law enforcement officers as provided under the Washington law enforcement officers' and fire fighters' retirement system act.

(b) Each county shall establish a disability board having jurisdiction over all members ~~residing in the county~~ employed by or retired from an employer within the county and not employed by a city in which a disability board is established. The county disability board so created shall be composed of five members to be chosen as follows: One member of the legislative body of the county to be appointed by the county legislative body (-) ; one member of a city or town legislative body located within the county which does not contain a city disability board established pursuant to subsection (1) (a) of this section to be chosen by a majority of the mayors of such cities and towns within the county which does not contain a city disability board (-) ; one active fire fighter or retired fire fighter employed by or retired from an employer within the county to be elected by the fire fighters employed or retired from an employer in the county who are not employed by or retired from a city in which a disability board is established (-) ; and who are subject to the jurisdiction of ~~the~~ that board; one active law enforcement officer or retired law enforcement officer employed by or from ~~the county~~ an employer within the county to be elected by the law enforcement officers employed or retired from an employer within the ~~county~~ who are under the jurisdiction of the board not employed by or retired from a city in which a disability board is established (-) ; and who are subject to the jurisdiction of that board; and one member from the public at large who resides within the county but does not reside within a city in which a city disability board is established, to be appointed by the other four members ~~(heretofore)~~ designated in this subsection. However, in counties with a population less than sixty thousand, the member of the disability board appointed by a majority of the mayors of the cities and towns within the county that do not contain a city disability board must be a resident of one of the cities and towns but need not be a member of a city or town legislative body. ((~~Retired members who are subject to the jurisdiction of the board have both the right to elect and the right to be elected under this section.~~)) Only those active or retired fire fighters and law enforcement officers who are subject to the jurisdiction of the board have the right to elect under this section. All fire fighters and law enforcement officers employed by or retired from ~~the county~~ an employer within the county ~~are eligible for election~~ who are not employed by or retired from a city in which a disability board is established are eligible for election. All members appointed or elected pursuant to this subsection shall serve for two-year terms. If there are no firefighters under the jurisdiction of the board eligible to vote a second eligible employee representative shall be elected by the law enforcement officers eligible to vote. If there are no law enforcement officers under the jurisdiction of the board eligible to vote a second eligible employee representative shall be elected by the firefighters eligible to vote.

(2) The members of both the county and city disability boards shall not receive compensation for their service upon the boards but (~~said~~) the members shall be reimbursed by the respective county or city for all expenses incidental to such service as to the amount authorized by law.

(3) The disability boards authorized for establishment by this section shall perform all functions, exercise all powers, and make all such determinations as specified in this chapter.

JUNO
E-mail on the Web

Print Message | Close

From	:	"LEOFF1.Net" <gtaylor@leoff1.net> 1-360 679-7353
To	:	"Jan Ford" <JanF@co.island.wa.us>
Cc	:	"Richard Warbrouck" <mwarbrouck@juno.com>
Subject	:	RE: SB 5090
Date	:	Sat, 18 Oct 2003 14:40:19 -0700

Jan,

I don't know if I got back to you on this as I have been out of town on vacation.

This was a screw up in the legislature. Everybody is aware of the problem but nothing can be done to fix it until the legislature resumes.

You might contact Dick Warbrouck, the President of the Retired Fire Fighters of Washington. I know he is tracking this issue. His email address is: mwarbrouck@juno.com

Jerry Taylor
gtaylor@leoff1.net

-----Original Message-----
From: Jan Ford [mailto:JanF@co.island.wa.us]
Sent: Monday, September 22, 2003 3:34 PM
To: gtaylor@leoff1.net
Subject: SB 5090

Hello: I am the secretary to the Island County LEOFF I Disability Board. Very recently we learned of the effect of SB 5090 passed by the 2003 legislature that changed RCW41.26.110 affecting who can vote for representatives on the local disability boards. The passage of this legislation has effectively eliminated our fire fighter representative position on our board as we have no LEOFF I fire fighters in Island County, and therefore, no one to vote.

Are you familiar with the background of this legislation? Have you heard from other counties/boards in the same position?

Thanks..

Jan L. Ford

Retired Firefighters of Washington

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Richard Warbrouck
President

Bob Burtch
Secretary

October 27, 2003

LEOFF 1 Pension Issue:

Presently the active members of the LEOFF 1 System nor their employers are making a contribution in the LEOFF 1 System.

These members are currently earning two percent of salary for each year of service without making a contribution. For the last five years the members have earned ten percent of salary plus future cost of living increases without having made a contribution. Ten percent of today's salary can equal $7,000.00 to $15,000.00 dollars per year depending on the position and the salary at retirement.

The employers are concerned about the escalating cost of medical coverage. They repeatedly raise the issue of their liability in regards to Long Term Care and the cost of treatment for catastrophic illnesses, heart transplants etc. In 2001 the employers advocated the taking of money from the LEOFF 1 Fund to establish a medical fund for catastrophic diseases.

I would suggest the reestablishment of the LEOFF 1 contributions with the proceeds to be deposited into a medical fund administered by the Department of Retirement Systems. An employer after having spent a predetermined amount of money for medical treatment could apply for a grant from this medical fund.

The members would be paying their fair share for service credit and the employer by paying their contribution would in effect be buying an insurance policy that would reduce their medical liability. These contributions would be minimal as no employer has a high number of active LEOFF 1 members.

As of 2002 we have 1,147 active LEOFF 1 members. Six percent of an average salary of $70,000 dollars equals $4,020.00 dollars per year times the 1,147 employees equals $4,610,940.00 per year. The employers would also make the same contribution for a total of $9,221,880.00. In two years we would have a fund valued at $18,443,760.00 depending on how many retired. An eighteen million dollar fund invested at five percent would earn $170,000.00 per year. Most importantly we would have this fund established which would make it easier to transfer money from the LEOFF 1 excess if we are ever able to agree on a fair distribution.

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Secretary

October 27, 2003

LEOFF 1 Pension Issue:

RCW 41.26.100 Allowance on Retirement for Service:
"PROVIDED FURTHER, That no retirement allowance paid pursuant to this section shall exceed sixty percent of final average salary."

RCW 41.18 The Prior Act:
41.18.040 limits retirement for service at 30 years 60% salary.

RCW 41.18.060 limits disability in line of duty to 60% of salary.

Some active members want to remove the cap of 60% provided for in RCW 41.26.100. These same active members are currently not making any contributions to the pension system and have not made a contribution for the past several years however they are earning service credit for each year of service.

A member who has not made a pension contribution for the last five years will earn two percent a year or ten percent of final average salary for retirement. The average salary is now about $70,000 per year because most of these members are senior members and have been promoted to higher positions. They will receive ten percent or approximately $7000.00 per year plus future COLA increases without making a single contribution. Many of these members because of their time in service will be APPOINTED to a higher position, Chief, Asst. Chief, etc just before applying for retirement. In today's world these positions have high salaries and many of these members will only hold these positions for one or two years before retirement. This allows the member to receive ten percent of salary for a position with a salary of $125,000.00, $150,000.00 or higher. This will enable a member appointed to a position with a higher salary to receive $12,500.00 to $15,000.00 per year plus future COLA without ever having made a pension contribution for that portion of their retirement allowance.

For years we fought for retirement eligibility after twenty-five or thirty years of service at a younger age due to the nature of the work and the physical requirements necessary to perform the duties. Therefore I don't think it's in the best interest of the general public or to our members to provide additional pension benefits to encourage our members to continue to work to an older age.

Retired Firefighters of Washington
15310 163rd Ct. SE
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425-226-3793
rflow@attbi.com

Richard Warbrouck
President

Bob Burtch
Secretary

October 27, 2003

LEOFF 1 Pension Issue:

SB 5090 amended RCW 41.26. The Bill properly established the voting eligibility for voting in local pension boards to only those firefighters and police officers who come under the jurisdiction of the board.

The current language is proper for the first class cities but there is some confusion regarding county disability boards.

RCW 41.26.110 (B) reads:

> "Each county shall establish a disability board having jurisdiction over all members residing in the county and not employed by a city in which a disability board is established."

This section should be amended to read that the board will have jurisdiction of all members employed by governmental agencies that are under the jurisdiction of the board.

The second problem is that we have some counties, Island County for example, that have no LEOFF 1 firefighters active or retired who are eligible to vote in the county board elections. If there are no active or retired LEOFF 1 firefighters eligible to vote then there are no active or retired LEOFF 1 firefighters under the jurisdiction of the board. This being the case, why have a firefighter on the board. Perhaps there should be two law enforcement officers elected by those LEOFF 1 active and retired law enforcement officers under the jurisdiction of the board. This would maintain the same number of board members and would not create an imbalance on the board.

SB 5090 amends RCW 41.26.110. This section addresses county disability boards. On line 30 of the Bill it states that "One active firefighter or retired firefighter employed by or retired from the county to be elected by the firefighters employed or retired in the county who are not employed by or retired from a city in which a disability board is established and who are subject to the jurisdiction of the board."

It should be clarified on line 31 to read "from a fire department or fire district under the jurisdiction of the board." Also on line 35 it should read "from the county or any police agency under the jurisdiction of the board."

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October 27, 2003

LEOFF I Pension Issue:

RCW 41.26.164 Optional Reduced Retirement Allowance continues for spouse otherwise ineligible for survivor benefit.

This section allowed a member who is married after retirement to select an option to provide a survivor benefit for his/her spouse.

By exercising this option the member will receive a reduction in their current pension allowance. The actuarial reduction is based on the age of the member, the age of the spouse and the amount of the retirement allowance at the date of retirement.

To qualify for this option the member must be receiving a full pension.

If an ex-spouse was granted a portion of the pension as a property settlement in a divorce decree the member cannot exercise this option to provide a survivor benefit for the current spouse. This section should be amended to make those members who are receiving less than a full pension eligible for the survivor option and to have the amount of their current pension actuarially reduced in proportion to what they are now receiving.

H-0071.2

HOUSE BILL 1432

State of Washington **57th Legislature** **2001 Regular Session**

By Representatives Cooper, Delvin, O'Brien, Conway, Murray, Edmonds, Kenney, Campbell, ~~Haigh,~~ Keiser, Simpson, Wood, Santos, Rockefeller and Kessler

Read first time 01/25/2001. Referred to Committee on Appropriations.

AN ACT Relating to extending death benefits to certain surviving spouses under the law enforcement officers' and fire fighters' retirement system; and amending RCW 41.26.160 and 41.26.161.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.26.160 and 1999 c 134 s 2 are each amended to read as follows:

(1) In the event of the duty connected death of any member who is in active service, or who has vested under the provisions of RCW 41.26.090 with twenty or more service credit years of service, or who is on duty connected disability leave or retired for duty connected disability, the surviving spouse shall become entitled to receive a monthly allowance equal to fifty percent of the final average salary at the date of death if active, or the amount of retirement allowance the vested member would have received at age fifty, or the amount of the retirement allowance such retired member was receiving at the time of death if retired for duty connected disability. The amount of this allowance will be increased five percent of final average salary for each child as defined in RCW 41.26.030(7), subject to a maximum combined allowance of sixty percent of final average salary: PROVIDED,

That if the child or children is or are in the care of a legal guardian, payment of the increase attributable to each child will be made to the child's legal guardian or, in the absence of a legal guardian and if the member has created a trust for the benefit of the child or children, payment of the increase attributable to each child will be made to the trust.

(2) If at the time of the duty connected death of a vested member with twenty or more service credit years of service as provided in subsection (1) of this section or a member retired for duty connected disability, the surviving spouse has not been lawfully married to such member for one year prior to retirement or separation from service if a vested member, the surviving spouse shall not be eligible to receive the benefits under this section<u>. However, if the surviving spouse has been lawfully married to such member for five years prior to the member's death, the surviving spouse, when at least age fifty-five, is eligible to receive the benefits under this section</u>: PROVIDED, That if a member dies as a result of a disability incurred in the line of duty, then if he or she was married at the time he or she was disabled, the surviving spouse shall be eligible to receive the benefits under this section.

(3) If there be no surviving spouse eligible to receive benefits at the time of such member's duty connected death, then the child or children of such member shall receive a monthly allowance equal to thirty percent of final average salary for one child and an additional ten percent for each additional child subject to a maximum combined payment, under this subsection, of sixty percent of final average salary. When there cease to be any eligible children as defined in RCW 41.26.030(7), there shall be paid to the legal heirs of the member the excess, if any, of accumulated contributions of the member at the time of death over all payments made to survivors on his or her behalf under this chapter: PROVIDED, That payments under this subsection to children shall be prorated equally among the children, if more than one. If the member has created a trust for the benefit of the child or children, the payment shall be made to the trust.

(4) In the event that there is no surviving spouse eligible to receive benefits under this section, and that there be no child or children eligible to receive benefits under this section, then the accumulated contributions shall be paid to the estate of the member.

(5) If a surviving spouse receiving benefits under the provisions of this section thereafter dies and there are children as defined in RCW 41.26.030(7), payment to the spouse shall cease and the child or children shall receive the benefits as provided in subsection (3) of this section.

(6) The payment provided by this section shall become due the day following the date of death and payments shall be retroactive to that date.

Sec. 2. RCW 41.26.161 and 1999 c 134 s 3 are each amended to read as follows:

(1) In the event of the nonduty connected death of any member who is in active service, or who has vested under the provisions of RCW 41.26.090 with twenty or more service credit years of service, or who is on disability leave or retired, whether for nonduty connected disability or service, the surviving spouse shall become entitled to receive a monthly allowance equal to fifty percent of the final average salary at the date of death if active, or the amount of retirement allowance the vested member would have received at age fifty, or the amount of the retirement allowance such retired member was receiving at the time of death if retired for service or nonduty connected disability. The amount of this allowance will be increased five percent of final average salary for each child as defined in RCW 41.26.030(7), subject to a maximum combined allowance of sixty percent of final average salary: PROVIDED, That if the child or children is or are in the care of a legal guardian, payment of the increase attributable to each child will be made to the child's legal guardian or, in the absence of a legal guardian and if the member has created a trust for the benefit of the child or children, payment of the increase attributable to each child will be made to the trust.

(2) If at the time of the death of a vested member with twenty or more service credit years of service as provided in subsection (1) of this section or a member retired for service or disability, the surviving spouse has not been lawfully married to such member for one year prior to retirement or separation from service if a vested member, the surviving spouse shall not be eligible to receive the benefits under this section. <u>However, if the surviving spouse has been lawfully married to such member for five years prior to the member's death, the</u>

<u>surviving spouse, when at least age fifty-five, is eligible to receive the benefits under this section.</u>

(3) If there be no surviving spouse eligible to receive benefits at the time of such member's death, then the child or children of such member shall receive a monthly allowance equal to thirty percent of final average salary for one child and an additional ten percent for each additional child subject to a maximum combined payment, under this subsection, of sixty percent of final average salary. When there cease to be any eligible children as defined in RCW 41.26.030(7), there shall be paid to the legal heirs of the member the excess, if any, of accumulated contributions of the member at the time of death over all payments made to survivors on his or her behalf under this chapter: PROVIDED, That payments under this subsection to children shall be prorated equally among the children, if more than one. If the member has created a trust for the benefit of the child or children, the payment shall be made to the trust.

(4) In the event that there is no surviving spouse eligible to receive benefits under this section, and that there be no child or children eligible to receive benefits under this section, then the accumulated contributions shall be paid to the estate of said member.

(5) If a surviving spouse receiving benefits under the provisions of this section thereafter dies and there are children as defined in RCW 41.26.030(7), payment to the spouse shall cease and the child or children shall receive the benefits as provided in subsection (3) of this section.

(6) The payment provided by this section shall become due the day following the date of death and payments shall be retroactive to that date.

--- **END** ---

Spring Orientation

(November 10, 2003)

May or June 2004
9 AM - 5 PM

Agenda Ideas

(1) Facilitated Discussion of Basic Issues (aimed to elicit member priorities and concerns)
- Bruce Feustal, National Council of State Legislatures, Facilitator

(2) Summary of States' Pension Issues
- Ron Snell, National Council of State Legislators, Pension Staff

(3) Reports on other issues we might like them to research
- TRS Reciprocity?
- Others?

(4) Washington Pension Policies and Structure
- OSA Staff

(5)

(6)

July 24, 1998

9 AM - 5 PM

Cascade Room
Double Tree Inn
18740 International Boulevard
SeaTac, Washington

REVISED
Retreat Agenda

CONTINENTAL BREAKFAST

9 AM **(1) Future Vision for Washington Pensions -- Brainstorming Session**
- *Bruce Feustal, National Council of State Legislatures, Facilitator*

10 AM **(2) National Pension Policy and Structure Trends**
- *Ronald Snell, National Council of State Legislatures*

11:30 AM **(3) Washington Pension Policies and Structure**
- *Steve Nelsen, Research Analyst*

Noon ***LUNCH***
Analysis of Morning Session by NCSL/Discussion

(4) Follow-up to Miller Report

1 PM **(A) Management of Washington Pension Systems**

-- Panel Discussion of Roles:

- State Investment Board: *James Parker, Executive Director*
- Department of Retirement Systems: *John Charles, Director*
- Pension Funding Council: *Pete Cutler, Legal Affairs/Legislative Manager, Department of Retirement Systems*
- Office of the State Actuary: *Gerald Allard, State Actuary*

2 PM **-- Legal Responsibilities of Each Agency/Definition of "Trusteeship" and "Fiduciary"**

- *Jeff Lane, General Counsel, Office of the Attorney General*

2:30 PM ***BREAK***

2:45 PM **(B) Overview of Actuarial Fiscal Notes**

- *Gerald Allard, State Actuary*

3:30 PM **(C) Comprehensive Report -- What reports exist now and who receives them?**

- *Steve Nelsen, Research Analyst*

4 PM **(D) Uniform Management of Public Employee Retirement Systems Act**

- *Steve Nelsen, Research Analyst*

4:45 PM **(5) Summary/Conclusion**

- *Senator Jeanine Long, Chair*

Persons with disabilities needing auxiliary aids or services for purposes of attending or participating in Joint Committee on Pension Policy meetings should call (360) 753-9695. TDD 1-800-635-9993

Washington Pension Policies and Structure

Joint Committee on Pension Policy
July 24, 1998

Prepared by:

Steve Nelsen
Research Analyst

Statutory Policies:

- **Department of Retirement Systems - RCW 41.50**

  The legislature sets forth as retirement policy and intent:

  - The retirement systems of the state shall provide similar benefits wherever possible.

  - Persons hired into eligible positions shall accrue service credit for all service rendered.

  - The calculation of benefits shall be done in such a manner as to prevent the arithmetic lowering of benefits.

  - Liberalization of the granting of service credit shall not jeopardize part-time employment of retirees in ineligible positions.

- **Actuarial Funding of State Retirement Systems - RCW 41.45**

  It is the intent of the legislature to provide a dependable and systematic process for funding the benefits provided to members and retirees of PERS, TRS, LEOFF, and the Washington state patrol retirement system.

  The funding process established by this chapter is intended to achieve the following goals:

  - To continue to fully fund PERS plan 2, TRS plans 2 and 3, and LEOFF plan 2 as provided by law;

  - To fully amortize the total costs of PERS plan 1, TRS plan 1, and LEOFF plan 1 not later than June 30, 2024;

  - To establish predictable long-term employer contribution rates which will remain a relatively constant proportion of the future state budgets; and

  - To fund, to the extent feasible, benefit increases for plan 1 members and all benefits for plan 2 and 3 members over the working lives of those members so that the cost of those benefits are paid by the taxpayers who receive the benefit of those members' service.

- **State Investment Board - RCW 43.33A**

  The board shall establish investment policies and procedures designed exclusively to maximize return at a prudent level of risk.

- **Contributions under TRS Plan 3 - RCW 41.34**

  The purpose of the legislation which established TRS Plan 3 is to:

  - Provide a fair and reasonable value from the retirement system for those who leave public employment before retirement;
  - Increase flexibility for such employees to make transitions into other public or private sector employment;
  - Increase employee options for addressing retirement needs, personal financial planning, and career transitions; and
  - Continue the legislature's established policy of having employees contribute toward their retirement benefits.

JCPP Retirement Benefit Policies:

- **The goal of Pension Benefit Policies**

  It is the goal of the JCPP to develop long-term policies for pension benefits that best meet the needs of employees, retirees and employers within available resources. Any new plans or changes to current plans should be based on these policies.

- **Plan 2 Policies**

  The following policies inherent in the Plan 2 systems should be continued:

  - All state and local employees should have essentially the same retirement plans;
  - Retiree benefits should have some form and degree of protection from inflation;
  - Costs should be shared equally between employees and employers.

- **Total Retirement Income**

  - Sufficient income after leaving the workforce should be from a combination of Social Security, retirement benefits and employee's savings.
  - Employees must take responsibility for insuring they have a sufficient income after retirement.

- **Purpose of Retirement Benefits**

  - Retirement benefits are intended to provide income after leaving the workforce.

- ✧ Employees who vest and leave should be provided reasonable value toward their ultimate retirement for their length of service.

✦ **Flexibility**

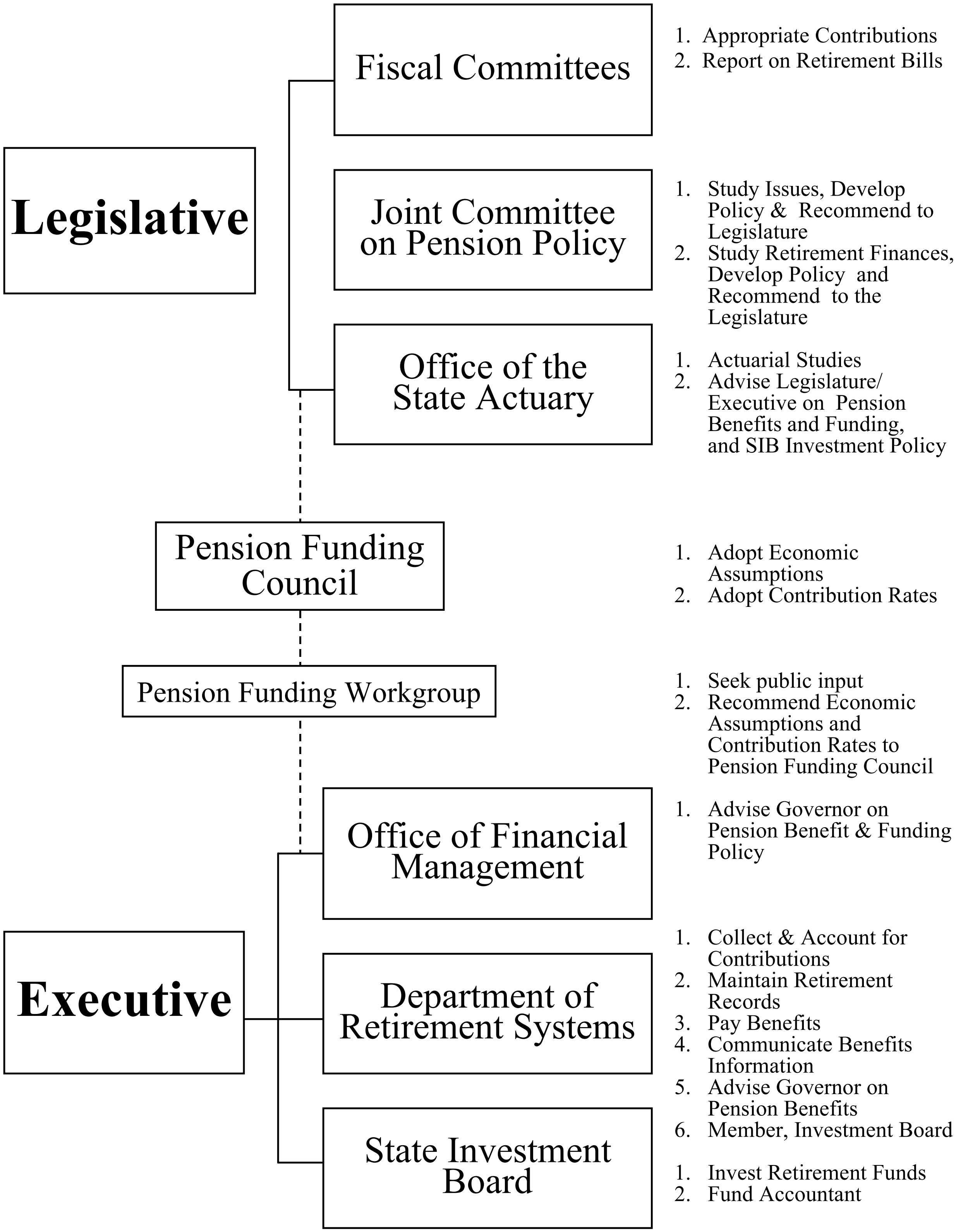
- ✧ Retirees should have more flexibility in determining the form and timing of their benefit.

- ✧ Plan design should be as neutral as possible in its effect on employees:

  - ✳ It should not inhibit employees from changing careers or employers.
  - ✳ Employees should not be encouraged to stay in jobs they consider highly stressful.
  - ✳ Employees should not be encouraged to seek early retirement.

✦ **The Cost of any new Retirement Plan**

Any new retirement plan shall not exceed the Plan 2 cost.


Legislative
Fiscal Committees
1. Appropriate Contributions
2. Report on Retirement Bills
Joint Committee on Pension Policy
1. Study Issues, Develop Policy & Recommend to Legislature
2. Study Retirement Finances, Develop Policy and Recommend to the Legislature
Office of the State Actuary
1. Actuarial Studies
2. Advise Legislature/ Executive on Pension Benefits and Funding, and SIB Investment Policy
Pension Funding Council
1. Adopt Economic Assumptions
2. Adopt Contribution Rates
Pension Funding Workgroup
1. Seek public input
2. Recommend Economic Assumptions and Contribution Rates to Pension Funding Council
Executive
Office of Financial Management
1. Advise Governor on Pension Benefit & Funding Policy
Department of Retirement Systems
1. Collect & Account for Contributions
2. Maintain Retirement Records
3. Pay Benefits
4. Communicate Benefits Information
5. Advise Governor on Pension Benefits
6. Member, Investment Board
State Investment Board
1. Invest Retirement Funds
2. Fund Accountant

Public Safety Subcommittee Report

(November 17, 2003)

The subcommittee identified two categories of PERS Public Safety members, those:

- With law enforcement responsibilities; and
- Those without law enforcement responsibilities.

(1) Members with Law Enforcement Responsibilities

Persons employed full time at any state agency, political subdivision, or unit of local government in the state of Washington directly responsible for protecting the public including, but not limited to the following (estimated counts in parentheses):

- State and county corrections officers (5,500)
- Park rangers (170)
- Liquor control enforcement officers (70)
- Gambling commission enforcement officers (80)

Inclusion in the law enforcement public safety category of PERS 2/3 must include all of the following:

- the responsibility to provide public protection of lives and property as a general duty of the job;
- a high degree of physical risk to one's own personal safety;
- authority and power to arrest, conduct criminal investigations, and enforce the criminal laws of the state of Washington;
- passage of a civil service examination or equivalent;
- completion of the Washington criminal justice training commission basic training course or equivalent; and
- the authority to carry a firearm as part of the job

Proposed Benefit Enhancements (with law enforcement responsibilities)

- Unreduced retirement allowance at age 60 with 5 years of service
- 3% early retirement reduction factor (ERF) from age 60 if age 53 with at least 20 years of service
- Current disability benefit with an actuarial equivalent ERF from age 60

(2) Members without Law Enforcement Responsibilities

Persons employed full time at any state agency, political subdivision, or unit of local government in the state of Washington directly responsible for protecting the public including, but not limited to the following (estimated counts in parentheses):

- Commercial vehicle officers (60)
- State fire marshals (20)
- Public utility district - line workers (400)

Inclusion in the non law enforcement public safety category of PERS 2/3 must include the following:

- the responsibility to provide public protection of lives and property as a general duty of the job; and
- a high degree of physical risk to one's own personal safety.

Proposed Benefit Enhancements (without law enforcement responsibilities)

- Optional early retirement buy-down program

Under this program, employee and employer contributions to a qualified defined contribution plan (i.e, 401(k), 401(a), 457, etc.) could be rolled into the PERS 2/3 defined benefit trust fund to purchase a reduced early retirement reduction at the time of retirement. The amount of contributions needed at retirement would vary depending on the member's age of early retirement and the magnitude of the early retirement buy-down.

(3) Significant Issues to be Resolved

- Past service credit options (prospective service only?)
- Funding policy (type and level of cost sharing; socialize cost within PERS 2/3?)
- Administrative impacts and effective date

(4) Cost Estimates

Cost estimates on four distinct options are provided in the following tables (administrative expenses are not included). The options provided vary depending on the determination of two key parameters: (1) past service credit options and (2) plan model/funding options:

Separate Public Safety Benefit Category Within PERS

	No Past Service	With Past Service
Increase in Employee/Employer Contribution Rates	.04% - .05%	.08% - .11%
Estimated 05-07 Costs **(in millions)**	GF-S = $1.2 - $1.5 Total = $6.7 - $7.6	GF-S = $2.6 - $3.3 Total = $13.5 - $16.8
25 Year Cost **(in millions)**	GF-S = $33.4 - $38.6 Total = $174.7 - $199.4	GF-S = $68.1 - $85.5 Total = $354.7 - $439.4

Separate Public Safety Plan

	No Past Service	With Past Service
Increase in Employee/Employer Contribution Rates	.99% - 1.13%	2.01% - 2.49%
Estimated 05-07 Costs **(in millions)**	GF-S = Unknown* Total = $6.7 - $7.6	GF-S = Unknown* Total = $13.5 - $16.8
25 Year Cost **(in millions)**	GF-S = Unknown* Total = $174.7 - $199.4	GF-S = Unknown* Total = $354.7 - $439.4

* *GF-S percentages for these public safety employers are unknown.*

Recovery of Lost Purchasing Power - 25 Years of Service and Retired 20 Years

(November 12, 2003)

Issue

It has been proposed that the minimum retirement benefit for PERS 1 and TRS 1 members with at least 25 years of service and who've been retired at least 20 years should be $1,000 per month before optional payment reductions.

Staff

Robert Wm. Baker (360) 586-9237

Members Impacted

As of the most recent valuation there were 54,006 PERS 1 retirees and 33,148 TRS 1 retirees. Of these, 636 PERS retirees and 652 TRS retirees had served at least 25 years, had been retired 20 years, and their benefit was less than $1,000 per month. Before optional payment reductions, these retirees had an average benefit of $870. Their average age was 84 in PERS and 89 in TRS.

Current Situation

PERS 1 and TRS 1 retirees are eligible to receive the Uniform COLA at age 66 after at least one year of retirement. They are also eligible for the minimum benefit, before reductions, which is currently $31.76 per month times a member's years of service – a member with 25 years of service would be eligible for $794 per month. Both the Uniform increase amount and the minimum benefit amount increase by at least 3% per year, and by gain-sharing distribution when available.

History

The Uniform COLA for PERS 1 and TRS 1 retirees was instituted in 1995.

The minimum benefit for PERS 1 and TRS 1 retirees was instituted in 1995.

Numerous bills have been introduced to address PERS 1 and TRS 1 COLAs, examples of which include HB 1197 and SB 5097 introduced in the 2003 session. This legislation would have allowed PERS 1 and TRS 1 retirees, who have been retired at least one year, to receive the Uniform COLA on July 1st of the calendar year in which they turn age 66.

Other Legislation has attempted to increase PERS 1 and TRS 1 COLAs through the gain-sharing chapter such as SB 5516 and HB 1426 introduced in the 2003 session. This legislation would have increased the frequency of gain-sharing distributions and distributed the odd-year amounts based on a formula where 1 point would be awarded for each year of service and 2 points for each year of retirement.

Policy Analysis

The plan 2/3s include COLA provisions that, after one year of retirement, increase a retiree's benefit by a maximum of 3% per year based on the Seattle CPI-W. The Uniform COLA amount, available to PERS 1 and TRS 1 retirees who have been retired at least one year and are age 66, is a fixed dollar amount multiplied by the retiree's years of service, not a percentage increase in the retiree's benefit; as a result, it is of greater value to low-benefit retirees, and of lesser value to high-benefit retirees.

PERS 1 and TRS 1 members retired for extended periods have the greatest diminishment in the purchasing power of their benefit. Based on changes in the CPI-W for Seattle it is estimated that the benefit of an average PERS 1 member lost 10 percent of its purchasing power after 5 years of retirement and 20 percent after 10 years.

Estimated Fiscal Impact

As this would be a non-automatic benefit adjustment, RCW 41.45.070(5) requires that it be funded on a pay-as-you-go basis. The cost to increase these retiree's unreduced benefit to $1,000 per month was estimated to June 30, 2010 because by July 1, 2010 the Minimum Benefit Amount will be at least $41.07 which would result in an unreduced allowance of $1,027 for a member with 25 years of service.

Total Cost to Increase the Minimum Unreduced TRS 1 and PERS 1 Benefit to $1,000/Month

	TRS	PERS	Total
2004 - 2005	$448,937	$509,524	$958,461
2005 - 2007	$464,204	$564,715	$1,028,919
2004 - 2010	$1,091,698	$1,341,034	$2,432,732

Because of the lag between the valuation data (September 2002) and the date of possible first adjustment (July 1, 2004) the number of retirees eligible for this minimum would decline to 457 TRS 1 members and 486 PERS 1 members.

Military Service Credit

(November 10, 2003)

Issue	Brought to the Committee by J. Pat Thompson
Staff	Robert Wm. Baker (360) 586-9237
Current Situation	Currently, all open plans award service credit for up to 5 years of interruptive military service. No open plan awards service credit for prior military service. PERS 1 and the WSP Retirement Plan 1 award up to 5 years of service credit for prior military service.
History	Eight bills have been introduced since 1997 which would have allowed TRS 1 members, after 25 years of service, to receive up to 5 years of credit for prior military service, as in PERS 1. The most recent bill, SB 5639 introduced in 2003, did not receive a hearing.

Policy Analysis

Military service credit is divided into two types: “Prior” and “Interruptive.”

“Prior” military service, which takes place prior to a member joining state service, can be creditable after 25 years of service only in PERS Plan 1 and the Washington State Patrol Retirement System (WSPRS) Plan 1. To qualify for prior military service credit in PERS 1, the member must have performed their military service during time of war or during specific periods of conflict as defined in RCW 41.04.005. In WSPRS 1, service credit for up to 5 years of prior military service is awarded regardless of when the service occurred.

“Interruptive” military service, which interrupts state service, is largely controlled by federal legislation. All of the State’s retirement systems provide credit for up to 5 years of interruptive military service credit. The member must return to service within 90 days of the end of their military service and make contributions related to this service in order to be eligible.

In the recent creation of WSPRS 2, service credit for prior military service was eliminated for future members.

2003 Early Retirement Proposals

(November 10, 2003)

Issue Four Early Retirement Window bills were introduced in the 2003 session.

Staff Robert Wm. Baker - 360-586-9237

2003 Legislation

SHB 1458 - Retirement Incentive Programs. Would have allowed public employers experiencing layoffs to offer employees within 5 years of retirement to retire with a benefit reduced 3% per year, and employees more than 5 years from retirement could have retired with an actuarially reduced benefit. Members retiring under this program would have been limited to 867 hours per year of post-retirement employment until 2008. The act would have expired on June 30, 2004. Required the employer to pay the full cost.

HB 1499 - PERS 1 & 2 Early Retirement. Would have allowed PERS 1 & 2 members employed on March 1, 2003 to retire between June 15, 2003, and August 31, 2003, and receive one year of additional service for each five years of actual service to a maximum of 30 years. Retirees would have been prohibited from any employment or service contracts with a state agency until June 30, 2004. The PERS employer contribution rate would have increased 0.27%, and the first biennium State cost would have been $22.2 million.

SHB 2180 - PERS and SERS Early Retirement. Would have allowed PERS 1 members to retire between September 1, 2003 and February 29, 2004, and withdraw their employee contributions in a lump-sum and receive a reduced benefit. Members of PERS 2/3 and SERS 2/3 who were at least 60 years of age and had at least 5 years of service could have retired during the window with a 3% per year reduction in their benefit. All retiring during this period would have received an additional $10 per month per year of service for the first 24 months of retirement. PERS and SERS contribution rates would have each increased 0.24% and the first biennium State cost would have been $20.2 million.

SB 5657 - PERS 1 Additional Sick leave Cash-Out. Would have allowed PERS 1 members who give notice of intent to retire by September 1, 2003, and who retired before January 1, 2004, to receive a sick leave cash-out of one day of current pay for each two full days of accrued sick leave (twice the normal rate). The costs incurred by this benefit would have been insufficient to affect contribution rates.

Fiscal Impact

See attachments.

HOUSE BILL REPORT
HB 1458

As Reported by House Committee On:
Appropriations

Title: An act relating to authorizing retirement incentive programs.

Brief Description: Authorizing retirement incentive programs.

Sponsors: Representative Alexander.

Brief History:
Committee Activity:
Appropriations: 3/4/03, 3/8/03 [DPS].

Brief Summary of Substitute Bill

- Permits public employers experiencing reductions in workforce to offer retirement incentive programs that allow employees within five years of eligibility to retire with a 3 percent per year reduction in benefits, and for employees not within five years of eligibility retirement with full actuarial reduction.
- Requires employers to pay the full actuarial present value of any increase in cost resulting from their employees retiring under an incentive program. Employees retiring under an incentive program are limited to 867 hours of post-retirement employment per year until June 30, 2008.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 27 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Sehlin, Ranking Minority Member; Pearson, Assistant Ranking Minority Member; Alexander, Boldt, Buck, Clements, Cody, Conway, Cox, DeBolt, Dunshee, Grant, Hunter, Kagi, Kenney, Kessler, Linville, McDonald, McIntire, Miloscia, Pflug, Ruderman, Schual-Berke, Sump and Talcott.

Staff: David Pringle (786-7310).

Background:

Normal retirement occurs when a member has reached the age and service requirements for their plan, terminates employment, and applies to begin their retirement allowance. The plans of state retirement systems have varying age and service requirements for normal eligibility, and Plans 2 and 3 also permit early retirement with reduced benefits.

Under Plan 1 of the Public Employees' Retirement System (PERS), employees may retire with full retirement benefits if they have: a) 30 years of service credit, regardless of their age; b) 25 years of service credit and are at least age 55; or c) at least 5 years of service credit and are at least age 60. The retiring employee's pension benefit is based on his or her average final compensation multiplied by years of service multiplied by 2 percent.

Under Plan 1 of the Teachers' Retirement System (TRS), employees may retire at the same ages and service credit levels as PERS Plan 1; however, in addition they may withdraw all or part of their employee contributions at retirement in a lump sum, and receive a monthly benefit reduced by the amount of an annuity that the withdrawn contributions would have purchased.

Under Plans 2 and 3 of PERS, TRS, and the School Employees Retirement System (SERS), employees may retire with: a) Full retirement benefits beginning at age 65; b) benefits actuarially reduced from age 65 beginning at age 55 with 20 years of service; or c) benefits reduced by 3 percent per year beginning at age 55 with 30 years of service.

Past early retirement options or defined periods referred to as "windows" have allowed employees to retire at a younger age or with less service credit than would have been available if they retired outside of the window. Generally, early retirement windows temporarily increase the value of retirement benefits to those members that are eligible and retire at that time. The temporary nature of an early retirement window is in contrast to a permanent change in plan benefits, such as a permanent lowering of the normal retirement age.

The Legislature enacted comprehensive early retirement windows in 1992-93, and also in 1982. Since the last comprehensive early retirement window, the Legislature has also enacted several targeted early retirement windows addressing the closing of facilities or the elimination of specific programs. All prior early retirement window programs have applied only to PERS Plan 1 and TRS Plan 1.

Summary of Substitute Bill:

Employers of PERS, SERS, and TRS members who are experiencing a significant reduction
in force, the closure of a facility, or the privatization of services may offer a retirement incentive program to employees.

If offered by an employer, the retirement incentive program permits employees within 5 years of normal retirement to retire with a 3 percent per-year reduction for each year of difference between the employee's age and normal retirement. For employees not within 5 years of normal retirement, they may retire with full actuarial reduction of benefits. For employees already eligible for a normal retirement allowance, an employer may offer other appropriate retirement incentives.

An employer providing a retirement incentive program is required to pay the full actuarial present value of any increase in cost to the retirement systems. An employee accepting an employer's retirement incentive is prohibited from receiving retirement benefits and resuming employment with that employer. In addition, any employee accepting an employer's offer to retire under an incentive program will have his or her retirement benefits suspended upon working more than 867 hours of post-retirement employment for any state retirement system participating employer.

The act expires June 30, 2004, except for the restrictions on post-retirement employment, which expire June 30, 2008.

Substitute Bill Compared to Original Bill:

The substitute bill changes the expiration date of the post-retirement employment restrictions from June 30, 2004, to June 30, 2008.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: Members are interested in this proposal. We favor this proposal because it includes all the plans and places a minimum burden on the state. Reductions-in-force notices are already going out in the school districts, and this could provide a more humane method of downsizing. This could be an excellent way to encourage those already eligible to leave now- help with medical benefits, for example. This is an optional bill, and employers who don't participate don't pay - also, the 3 percent ERRF benefit is a balanced approach. This is a sensible approach for agencies faced with steep layoffs.

(Concerns) Many employers couldn't afford to participate.

Testimony Against: None.

Testified: Representative Alexander, prime sponsor; Bev Hermanson, Washington Federation of State Employees; Doug Nelson, Public School Employees of Washington; Randy Parr, Washington Education Association; David Westburg, Stationary Engineers; Lynn Meier, Washington Public Employees Association; and Jim Justin, Association of Washington Cities.

(Concerns) Owen Linch, Joint Council of Teamsters.

H-2367.1

SUBSTITUTE HOUSE BILL 1458

State of Washington 58th Legislature 2003 Regular Session

By House Committee on Appropriations (originally sponsored by Representative Alexander)

READ FIRST TIME 03/10/03.

AN ACT Relating to authorizing retirement incentive programs; amending RCW 41.32.480, 41.32.765, 41.32.875, 41.35.420, 41.35.680, 41.40.180, 41.40.630, 41.40.820, and 43.43.250; adding a new chapter to Title 41 RCW; and providing expiration dates.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** Unless the context clearly requires otherwise, the definitions in this section apply throughout this chapter.

(1) "Employer" means the state of Washington, counties, cities, towns, or any other political subdivision, whose employees are members of a retirement system under RCW 41.50.030 (1) (a) through (d) and (4).

(2) "Early retirement" means the authorization under this chapter of temporary retirement eligibility for the retirement systems under RCW 41.50.030 (1) (a) through (d) and (4).

(3) "Eligible position" means a position that conforms to the requirements for membership in a retirement system under RCW 41.50.030 (1) (a) through (d) and (4).

(4) "Normal retirement" means that retirement, based on service or

service and age, of a member of a retirement system when the full retirement allowance is provided.

NEW SECTION. **Sec. 2.** An employer may temporarily utilize a retirement incentive program as provided in section 3(1) of this act if it has encountered or will be encountering one or more of the following emergent and compelling conditions:

(1) A significant reduction in force due to either (a) budgetary or other fiscal adjustments or (b) significant personnel restructuring;

(2) The closure of one or more of its facilities; and

(3) The privatization of one or more of its agencies or services it provides.

NEW SECTION. **Sec. 3.** (1) An employer may offer, adhering to all laws or regulations of the state or federal government:

(a) Retirement, with a reduction in the retirement allowance of three percent per year for each year of difference between the employee's age and the full retirement age for the employee's plan, to those targeted employees who are within five years of normal retirement;

(b) Retirement, with full actuarial reduction of the retirement allowance, to other targeted employees who are not within five years of normal retirement; and

(c) Other incentives the agency or political subdivision declares appropriate, including incentives to those already eligible to retire on normal retirement.

(2) The employer providing early retirement as a part of a retirement incentive program under subsection (1)(a) or (b) of this section is required to pay the full actuarial present value of any increase in the cost to the respective retirement system or systems resulting from persons taking the early retirement. This payment may be made during a five-year period beginning on the date of retirement. Interest shall be charged on payments made by the employer after the date of the employees' retirement at a rate determined by the director.

(3) An employee who accepts an employer's offer to retire under this section shall have their retirement allowance suspended immediately upon reemployment with that employer, and the retired

employee's retirement allowance shall remain suspended until the retired employee remains absent from employment with that employer for one full calendar month.

<u>NEW SECTION.</u> **Sec. 4.** An employee who accepts an employer's offer to retire under section 3 of this act who works more than eight hundred sixty-seven hours of postretirement employment with any employer participating in any of the Washington state retirement systems shall have their monthly retirement allowance suspended until the retiree remains absent from employment with an employer for one full calendar month.

<u>NEW SECTION.</u> **Sec. 5.** Upon notification by a political subdivision, the director of retirement systems shall, within fifteen calendar days of receipt, inform the certified or requesting employer of the procedures and reporting necessary to carry out any retirement incentive program.

Sec. 6. RCW 41.32.480 and 1997 c 254 s 4 are each amended to read as follows:

(1) Any member who separates from service after having completed thirty years of creditable service may retire upon the approval by the department of an application for retirement filed on the prescribed form. Upon retirement the member shall receive a retirement allowance consisting of an annuity which shall be the actuarial equivalent of his or her accumulated contributions at his or her age of retirement and a pension as provided in RCW 41.32.497. Effective July 1, 1967, anyone then receiving a retirement allowance or a survivor retirement allowance under this chapter, based on thirty-five years of creditable service, and who has established more than thirty-five years of service credit with the retirement system, shall thereafter receive a retirement allowance based on the total years of service credit established.

(2) Any member who has attained age sixty years, but who has completed less than thirty years of creditable service, upon separation from service, may retire upon the approval by the department of an application for retirement filed on the prescribed form. Upon retirement the member shall receive a retirement allowance consisting

of an annuity which shall be the actuarial equivalent of his or her accumulated contributions at his or her age of retirement and a pension as provided in RCW 41.32.497.

(3) Any member who has attained age fifty-five years and who has completed not less than twenty-five years of creditable service, upon separation from service, may retire upon the approval by the department of an application for retirement filed on the prescribed form. Upon retirement the member shall receive a retirement allowance which shall be the actuarial equivalent of his or her accumulated contributions at his or her age of retirement and a pension as provided in RCW 41.32.497. An individual who has retired pursuant to this subsection, on or after July 1, 1969, shall not suffer an actuarial reduction in his or her retirement allowance, except as the allowance may be actuarially reduced pursuant to the options contained in RCW 41.32.530. The chapter 193, Laws of 1974 ex. sess. amendment to this section shall be retroactive to July 1, 1969.

(4) Subsections (1) through (3) of this section may be temporarily superseded by the provisions of a certified retirement incentive program initiated under section 3 of this act.

Sec. 7. RCW 41.32.765 and 2000 c 247 s 902 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years of service who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760.

(2) EARLY RETIREMENT. Any member who has completed at least twenty service credit years of service who has attained at least age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.760, except that a member

retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

<u>(4) Subsections (1) through (3) of this section may be temporarily superseded by the provisions of a certified retirement incentive program initiated under section 3 of this act.</u>

Sec. 8. RCW 41.32.875 and 2000 c 247 s 903 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age fifty-four; or

(c) Completed five service credit years by July 1, 1996, under plan 2 and who transferred to plan 3 under RCW 41.32.817;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.32.840, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

<u>(4) Subsections (1) through (3) of this section may be temporarily superseded by the provisions of a certified retirement incentive program initiated under section 3 of this act.</u>

Sec. 9. RCW 41.35.420 and 2000 c 247 s 905 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400.

(2) EARLY RETIREMENT. Any member who has completed at least twenty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.400, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

<u>(4) Subsections (1) through (3) of this section may be temporarily superseded by the provisions of a certified retirement incentive program initiated under section 3 of this act.</u>

Sec. 10. RCW 41.35.680 and 2000 c 247 s 906 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age fifty-four; or

(c) Completed five service credit years by September 1, 2000, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.35.510;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.35.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

<u>(4) Subsections (1) through (3) of this section may be temporarily superseded by the provisions of a certified retirement incentive program initiated under section 3 of this act.</u>

Sec. 11. RCW 41.40.180 and 1982 1st ex.s. c 52 s 21 are each amended to read as follows:

(1) Any member with five years of creditable service who has attained age sixty and any original member who has attained age sixty may retire on written application to the director, setting forth at what time the member desires to be retired: PROVIDED, That in the national interest, during time of war engaged in by the United States, the director may extend beyond age sixty, subject to the provisions of subsection (2) of this section, the age at which any member may be eligible to retire.

(2) Any member who has completed thirty years of service may retire on written application to the director setting forth at what time the member desires to be retired, subject to war measures.

(3) Any member who has completed twenty-five years of service and attained age fifty-five may retire on written application to the director setting forth at what time the member desires to be retired, subject to war measures.

(4) Any individual who is eligible to retire pursuant to subsections (1) through (3) of this section shall be allowed to retire while on any authorized leave of absence not in excess of one hundred and twenty days.

(5) Subsections (1) through (3) of this section may be temporarily superseded by the provisions of a certified retirement incentive program initiated under section 3 of this act.

Sec. 12. RCW 41.40.630 and 2000 c 247 s 901 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member with at least five service credit years who has attained at least age sixty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620.

(2) EARLY RETIREMENT. Any member who has completed at least twenty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.620, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(4) Subsections (1) through (3) of this section may be temporarily superseded by the provisions of a certified retirement incentive program initiated under section 3 of this act.

Sec. 13. RCW 41.40.820 and 2000 c 247 s 309 are each amended to read as follows:

(1) NORMAL RETIREMENT. Any member who is at least age sixty-five and who has:

(a) Completed ten service credit years; or

(b) Completed five service credit years, including twelve service credit months after attaining age fifty-four; or

(c) Completed five service credit years by the transfer payment date specified in RCW 41.40.795, under the public employees' retirement system plan 2 and who transferred to plan 3 under RCW 41.40.795;

shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790.

(2) EARLY RETIREMENT. Any member who has attained at least age fifty-five and has completed at least ten years of service shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance actuarially reduced to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(3) ALTERNATE EARLY RETIREMENT. Any member who has completed at least thirty service credit years and has attained age fifty-five shall be eligible to retire and to receive a retirement allowance computed according to the provisions of RCW 41.40.790, except that a member retiring pursuant to this subsection shall have the retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

<u>(4) Subsections (1) through (3) of this section may be temporarily superseded by the provisions of a certified retirement incentive program initiated under section 3 of this act.</u>

Sec. 14. RCW 43.43.250 and 1982 1st ex.s. c 52 s 26 are each amended to read as follows:

(1) Any member who has attained the age of sixty years shall be retired on the first day of the calendar month next succeeding that in which said member shall have attained the age of sixty: PROVIDED, That the requirement to retire at age sixty shall not apply to a member serving as chief of the Washington state patrol.

(2) Any member who has completed twenty-five years of credited service or has attained the age of fifty-five may apply to retire as provided in RCW 43.43.260, by completing and submitting an application

form to the department, setting forth at what time the member desires to be retired.

(3) Subsections (1) and (2) of this section may be temporarily superseded by the provisions of a certified retirement incentive program initiated under section 3 of this act.

NEW SECTION. **Sec. 15.** Sections 1 through 5 of this act constitute a new chapter in Title 41 RCW.

NEW SECTION. **Sec. 16.** This act expires June 30, 2004, except for section 4 of this act, which expires June 30, 2008.

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**3/12/03**	**SHB 1458**

SUMMARY OF BILL:

This bill impacts the Teachers' (TRS), School Employees' (SERS), Public Employees' (PERS), and Washington State Patrol (WSP) Retirement Systems by allowing employers, who are subject to budgetary or fiscal adjustments, personnel restructuring, closures, or privatization, to offer retirement incentive programs.

These retirement incentive programs may offer, for those within 5 years of full retirement eligibility, early retirement with a reduction of 3% per year. For those who are not within 5 years of normal retirement, employers may offer retirement with a full actuarial reduction. For those who are already eligible to retire, employers may offer other incentives that are declared appropriate.

Employers offering retirement incentive programs are required to pay the full actuarial present value of any increase in the cost to the affected retirement system resulting from persons taking the early retirement. This payment, plus interest, may be made during a 5 year period beginning on the date of retirement.

An employee who retires under a retirement incentive program is limited to 867 hours of post-retirement employment with any state retirement system employer before their benefit is suspended.

Effective Date: 90 days after session. The act expires on June 30, 2004 except for the provision dealing with post-retirement employment which expires on June 30, 2008.

CURRENT SITUATION:

Currently, members of PERS 1 and TRS 1 may retire with an unreduced benefit at age 60 with 5 years of service, at age 55 with 25 years of service, or at any age with 30 years of service.

Members of the WSP may retire with an unreduced benefit at age 55 regardless of service, or at any age with 25 years of service. The WSP is the only open Plan with a mandatory retirement provision; other than the chief of the State Patrol, members must retire at age 60.

Members of PERS, TRS, and SERS Plans 2 may retire with an unreduced benefit at age 65 with 5 years of service. They are also eligible for a reduced benefit (3% per year from age 65) at age 55 with 30 years of service. Members are also eligible for an actuarially reduced early retirement benefit at age 55 with 20 years of service.

Members of PERS, TRS, and SERS Plan 3 may receive the defined benefit portion of their retirement allowance at age 65 with 10 years of service; or at age 65 with 5 years of service if 12 months of that service was earned after age 54; or at age 65 with 5 years of credit if that credit was earned under PERS 2 before transferring to SERS. A Plan 3 member may receive an actuarially reduced defined benefit at age 55 with 10 years service. Members are eligible to receive the defined contribution portion of the retirement allowance whenever they terminate employment.

MEMBERS IMPACTED:

The following table summarizes the number of members who are either currently eligible or within 5 years of retirement eligibility (by retirement system and plan).

Members of Select Plans by Retirement Eligibility

	Retirement Eligible	Within 5 years of Eligibility
PERS 1	9,487	7,752
PERS 2	1,790	7,158
TRS 1	6,407	4,791
TRS 2/3	137	1,668
SERS 2/3	960	3,067
WSPRS	107	103
	18,888	**24,539**

We have no information on the number of members who might be offered an early retirement incentive by their employer.

Actuarial Determinations:

The bill provides that the employer pay the full actuarial costs of the early retirement incentive, so there is no fiscal impact on the retirement systems for this part of the bill, except to the employer who must pay the cost of any program they might offer.

Washington State
House of Representatives
Office of Program Research

BILL ANALYSIS

Appropriations Committee

HB 1499

Brief Description: Authorizing early retirement for public employees' retirement system plan 1 and plan 2 members.

Sponsors: Representatives Romero, Hunt, Haigh, Moeller, Cooper, Kenney, Simpson, Conway, Campbell, McDermott, Veloria, Flannigan, Cody, Dickerson, Cairnes, Armstrong, Schoesler, Cox, Santos and Wood.

Brief Summary of Bill

- Permits members of the Public Employees' Retirement System Plans 1 and 2 who are employed March 1, 2003, to retire between June 15, 2003, and August 31, 2003, to retire and receive one additional year of service credit for each five years of actual service, up to a maximum of 30 years.
- Prohibits a member who retires during this period with additional service credit from any employment or personal service contracts with a state agency until June 30, 2004.

Hearing Date: 3/4/03

Staff: David Pringle (786-7310).

Background:

Normal retirement occurs when a member has reached the age and service requirements for their plan, terminates employment, and applies to begin their retirement allowance. The plans of state retirement systems have varying age and service requirements for normal eligibility, and the Plans 2 and 3 also permit early retirement with reduced benefits.

Under Plan 1 of the Public Employees' Retirement System (PERS), employees may retire with full retirement benefits if they have: (a) 30 years of service credit, regardless of their age; (b) 25 years of service credit and are at least age 55; or (c) at least five years of service credit and are at least age 60. The retiring employee's pension benefit is based on his or her average final compensation X years of service X 2 percent.

Under Plan 1 of the Teachers' Retirement System (TRS), employees may retire at the same ages and service credit levels as PERS Plan 1; however, in addition they may withdraw all or part of their employee contributions at retirement in a lump sum, and receive a monthly benefit reduced by the amount of an annuity that the withdrawn contributions would have purchased.

Under Plan 2 and 3 of PERS, TRS, and the School Employees Retirement System (SERS), employees may retire with: (a) Full retirement benefits beginning at age 65; (b) benefits actuarially reduced from age 65 beginning at age 55 with 20 years of service; or (c) benefits reduced by 3 percent per year beginning at age 55 with 30 years of service.

Past early retirement options or defined periods referred to as "windows" have allowed employees to retire at a younger age or with less service credit than would have been available if they retired outside of the window. Generally, early retirement windows temporarily increase the value of retirement benefits to those members that are eligible and retire at that time. The temporary nature of an early retirement window is in contrast to a permanent change in plan benefits, such as an permanent lowering of the normal retirement age.

The Legislature enacted comprehensive early retirement windows in 1992-93, and also in 1982. Since the last comprehensive early retirement window, the Legislature has also enacted several targeted early retirement windows addressing the closing of facilities or the elimination of specific programs. All prior early retirement window programs have applied only to PERS Plan 1 and TRS Plan 1.

Summary of Bill:

Members of PERS 1 and 2 who are employed March 1, 2003, may retire regardless of age or length of service between June 15, 2003, and August 31, 2003, and receive one additional year of service credit for each five years of actual service, up to a maximum of 30 years of service.

A member choosing to retire during this period and receive the additional years of service is prohibited from all employment or personal services contracts with a state agency until June 30, 2004. Exceptions may be granted by written approval from the Director of the Office of Financial Management. The Director must find the employment of the retiree necessary for protecting public safety, protecting eligibility for federal funds, or maintaining functions so essential that even a temporary interruption would significantly impact the public.

Appropriation: None.

Fiscal Note: Requested February 6, 2003.

Effective Date: The bill contains an emergency clause and takes effect immediately.

H-0379.2

HOUSE BILL 1499

State of Washington 58th Legislature 2003 Regular Session

By Representatives Romero, Hunt, Haigh, Moeller, Cooper, Kenney, Simpson, Conway, Campbell, McDermott, Veloria, Flannigan, Cody, Dickerson, Cairnes, Armstrong, Schoesler, Cox, Santos and Wood

Read first time 01/28/2003. Referred to Committee on Appropriations.

AN ACT Relating to early retirement; adding new sections to chapter 41.40 RCW (uncodified); adding a new section to chapter 43.01 RCW (uncodified); adding a new section to chapter 39.29 RCW (uncodified); providing expiration dates; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** Subject to this section, in addition to members eligible to retire under RCW 41.40.180, any member of the public employees' retirement system plan 1 who meets the following criteria may retire after providing written notification to the member's employer and submitting the required application to the director on a form provided by the department:

(1) The member is employed by an employer on March 1, 2003.

(2)(a) A member eligible under subsection (1) of this section must file an application between June 15, 2003, and August 31, 2003, with an effective date of retirement on or before September 30, 2003.

(b) In addition to any other years of creditable service, for every five years of actual service the member may be granted credit for one additional year of service. Under no circumstances may more than thirty years of service credit be established.

NEW SECTION. **Sec. 2.** Section 1 of this act is added to chapter 41.40 RCW, but because of its temporary nature, shall not be codified.

NEW SECTION. **Sec. 3.** Subject to this section, in addition to members eligible to retire under RCW 41.40.630, any member of the public employees' retirement system plan 2 who meets the following criteria may retire after providing written notification to the member's employer and submitting the required application to the director on a form provided by the department:

(1) The member is employed by an employer on March 1, 2003.

(2)(a) A member eligible under subsection (1) of this section must file an application between June 15, 2003, and August 31, 2003, with an effective date of retirement on or before September 30, 2003.

(b) In addition to any other years of creditable service, for every five years of actual service the member may be granted credit for one additional year of service. Under no circumstances may more than thirty years of service credit be established.

NEW SECTION. **Sec. 4.** Section 3 of this act is added to chapter 41.40 RCW, but because of its temporary nature, shall not be codified.

NEW SECTION. **Sec. 5.** In order to ensure that the state derives the expected benefits from the early retirement provisions of this act, no state agency may hire persons who retire from service under the provisions of this act as temporary or project employees, as defined by the Washington personnel resources board for employees covered under chapter 41.06 RCW. Exceptions to this section may be granted by written approval from the director of financial management if the director finds that the temporary or project employment of a retiree is necessary to protect the public safety, protect against the loss of federal certification or loss of critical federal funds, or carry out functions so essential to the agency that even temporary suspension or delay of services would have a significant negative impact on the public. This section expires June 30, 2004.

NEW SECTION. **Sec. 6.** Section 5 of this act is added to chapter 43.01 RCW, but because of its temporary nature, shall not be codified.

NEW SECTION. **Sec. 7.** In order to ensure that the state derives the expected benefits from the early retirement provisions of this act, no state agency may engage through personal service contracts persons who retire from service under the provisions of this act. Exceptions to this section may be granted by written approval from the director of the office of financial management if the director finds that the proposed contract is necessary to protect the public safety, protect against the loss of federal certification or loss of critical federal funds, or carry out functions so essential to the agency that even temporary suspension or delay of services would have a significant negative impact on the public. At the end of each three-month period in which exceptions are approved, the director shall forward a copy of any approvals, together with justification for the exceptions, to the fiscal committees of the legislature. Each forwarded approval shall include the name of the proposed contractor, the agency and division or department requesting the contract, duration and cost of the proposed contract, and specific functions and duties to be carried out under the contract. This section expires June 30, 2004.

NEW SECTION. **Sec. 8.** Section 7 of this act is added to chapter 39.29 RCW, but because of its temporary nature, shall not be codified.

NEW SECTION. **Sec. 9.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect immediately.

--- END ---

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**2/20/03**	**HB 1499**

SUMMARY OF BILL:

This bill impacts the Public Employees' Retirement System (PERS) by providing Plan 1 and Plan 2 members, who are employed on March 1, 2003, one year of additional service credit for each 5 years of actual service credit if they elect to retire during an early retirement window. The window opens on June 15, 2003 and closes on August 31, 2003. Plan 1 and Plan 2 members who elect to retire under the window may not receive more than 30 years of service credit in their retirement benefit.

A member who elects to retire under this window may not be rehired as a temporary or project employee, or return under a personal services contract prior to June 30, 2004. Exceptions may be granted by written approval from the director of the Office of Financial Management.

Effective Date: Immediately.

CURRENT SITUATION:

Currently, members of PERS 1 may retire with an unreduced benefit at age 60 with 5 years of service, at age 55 with 25 years of service, or at any age with 30 years of service.

Members of PERS 2 may retire with an unreduced benefit at age 65 with 5 years of service. They are also eligible for a reduced benefit at age 55 if they have at least 20 years of service. PERS 2 members who retire at age 55 with at least 30 years of service receive a 3% reduction for each year that their retirement age precedes age 65. Members who retire with at least 20 years of service, but less than 30 years of service, receive a larger actuarial reduction for early commencement of their benefit.

MEMBERS IMPACTED:

We have interpreted this bill to allow all active members employed on March 1, 2003 to retire, even if not otherwise eligible.

The bill provides an incentive for members to retire by providing an additional year of service credit for each 5 years of actual service credit. No member, however, may retire with more than 30 years of service credit. As a result, the largest financial incentive would be provided to members with 25 years of service credit (eligible to receive the maximum of 5 years of additional service credit).

This financial incentive will vary by retirement plan. Plan 1 members would be allowed to retire with an unreduced benefit; whereas Plan 2 members who retire prior to age 65 would receive a reduction for early commencement. In other words, the additional service credit will provide less of an incentive for PERS 2 members to retire than their PERS 1 counterparts.

There is one group of PERS 2 members, however, who could receive more benefit from this window relative to other PERS 2 members. PERS 2 members age 55 with 25 years of service could elect to retire under the window, receive the maximum of 5 years of additional service and retire with a 3% early retirement reduction factor (instead of the larger actuarial reduction).

Currently, there are about 19,000 PERS 1 active members who have less than 30 years of service. There are currently 128,955 active members in PERS 2. Of this total, there are about 1,000 active members who are age 55 with at least 25 years of service.

Plan 3 members are not impacted by this bill.

ASSUMPTIONS:

We have assumed that all members currently eligible to retire will retire under our existing assumptions and retire with the enhanced benefit provided under this window. Of the remaining members eligible for the window, we have assumed that 33% of PERS 1 members with less than 30 years of service will retire and 100% of PERS 2 members age 55 with 25 years of service credit will retire.

To put these assumptions in historical perspective, 22% of eligible participants in the 1982 early retirement window elected to retire. In the 1992 and 1993 early retirement windows, only 12% of eligible participants elected to retire. None of these 3 prior windows provided enhanced pension benefits and none were offered to PERS 2 members. Underlying economic conditions varied with each early retirement window.

The actual cost will depend on who actually elects to retire under this window.

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

(Dollars in Millions)		Public Employees' Retirement System: Current	Increase	Total
Actuarial Present Value of Projected Benefits (The Value of the Total Commitment to all Current Members)	Plan 1	$ 12,244	$ 210	$ 12,454
	Plan 2	12,428	76	12,504
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	Plan 1	$ 860	$ 268	$ 1,128
Unfunded Liability (PBO) (The Value of the Total Commitment to all Current Members Attributable to Past Service)	Plan 1	$ 301	$ 317	$ 618
	Plan 2	(4,874)	88	(4,786)
Required Contribution Rate		2.05%	**0.27%**	2.32%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

	PERS	SERS
Increase in Contribution Rates:		
Employee (Plan 2 only)	.07%	N/A
Employer State	.27%	.20%
Costs (in Millions):		
2003-2005		
State:		
General Fund	$ 7.7	$ 2.4
Non-General Fund	12.1	0.0
Total State	**$ 19.8**	**$ 2.4**
Local Government	$ 17.5	$ 2.0
2005-2007		
State:		
General Fund	$ 9.2	$ 3.0
Non-General Fund	14.8	0.0
Total State	**$ 24.0**	**$ 3.0**
Local Government	$ 21.2	$ 2.7
2003-2028		
State:		
General Fund	$ 167.2	$ 54.5
Non-General Fund	273.2	0.0
Total State	**$ 440.4**	**$ 54.5**
Local Government	$ 390.5	$ 48.4

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2001 actuarial valuation report of the Public Employees' Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

   For Plan 2, those age 55 or more with at least 25 or more years of service were presumed to retire under this window. For Plan 1, 33% of those with between 10 and 30 years of service were presumed to retire under this window.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2003 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e., interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all Plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

HOUSE BILL REPORT
HB 2180

As Reported by House Committee On:
Appropriations

Title: An act relating to early retirement.

Brief Description: Authorizing early retirement for the public employees' retirement system.

Sponsors: Representatives Romero, Hunt, Sommers, Armstrong, Conway, Kessler, Kenney, Rockefeller and McDermott.

Brief History:
Committee Activity:
Appropriations: 3/4/03, 3/8/03 [DPS].

Brief Summary of Substitute Bill

- Allows members of the Public Employees' Retirement System (PERS) Plan 1 to retire during a window from September 1, 2003, and February 29, 2004, and elect to withdraw their employee contributions in a lump sum and receive a reduced monthly benefit. Members of PERS Plans 2 and 3 and the School Employees' Retirement System (SERS) Plans 2 and 3 may retire during the window beginning at age 60, with 5 years of service, and with a 3 percent per-year reduction.
- All PERS and SERS members retiring during the window receive an additional $10 per month per year of service for the first 24 months of retirement.

HOUSE COMMITTEE ON APPROPRIATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 27 members: Representatives Sommers, Chair; Fromhold, Vice Chair; Sehlin, Ranking Minority Member; Pearson, Assistant Ranking Minority Member; Alexander, Boldt, Buck, Clements, Cody, Conway, Cox, DeBolt, Dunshee, Grant, Hunter, Kagi, Kenney, Kessler, Linville, McDonald, McIntire, Miloscia, Pflug, Ruderman, Schual-Berke, Sump and Talcott.

Staff: David Pringle (786-7310).

Background:

Normal retirement occurs when a member has reached the age and service requirements for their plan, terminates employment, and applies to begin their retirement allowance. The plans of state retirement systems have varying age and service requirements for normal eligibility, and Plans 2 and 3 also permit early retirement with reduced benefits.

Under Plan 1 of the Public Employees' Retirement System (PERS), employees may retire with full retirement benefits if they have: (a) 30 years of service credit, regardless of their age; (b) 25 years of service credit and are at least age 55; or (c) at least 5 years of service credit and are at least age 60. The retiring employee's pension benefit is based on his or her average final compensation multiplied by years of service multiplied by 2 percent.

Under Plan 1 of the Teachers' Retirement System (TRS), employees may retire at the same ages and service credit levels as PERS Plan 1; however, in addition they may withdraw all or part of their employee contributions at retirement in a lump sum, and receive a monthly benefit reduced by the amount of an annuity that the withdrawn contributions would have purchased.

Under Plans 2 and 3 of PERS, TRS, and the School Employees Retirement System (SERS), employees may retire with: (a) Full retirement benefits beginning at age 65; (b) benefits actuarially reduced from age 65 beginning at age 55 with 20 years of service; or (c) benefits reduced by 3 percent per year beginning at age 55 with 30 years of service.

Past early retirement options or defined periods referred to as "windows" have allowed employees to retire at a younger age or with less service credit than would have been available if they retired outside of the window. Generally, early retirement windows temporarily increase the value of retirement benefits to those members that are eligible and retire at that time. The temporary nature of an early retirement window is in contrast to a permanent change in plan benefits, such as a permanent lowering of the normal retirement age.

The Legislature enacted comprehensive early retirement windows in 1992-93, and also in 1982. Since the last comprehensive early retirement window, the Legislature has also enacted several targeted early retirement windows addressing the closing of facilities or the elimination of specific programs. All prior early retirement window programs have applied only to PERS Plan 1 and TRS Plan 1.

Summary of Substitute Bill:

An enhanced benefit retirement window is created for PERS members retiring between September 1, 2003, and February 29, 2004.

Members of PERS Plan 1 may retire during the window, elect to withdraw all or part of their employee contributions in a lump sum, and receive a monthly benefit reduced by the amount of an annuity that the withdrawn contributions would have purchased.

Members of PERS and SERS Plans 2 and 3 may retire during the window at age 60 or older, with 5 or more years of service, and receive a benefit reduced by 3 percent per year
between age at retirement and 65.

Members of PERS retiring during the window also receive an additional $10 per month per
year of service (for example, an additional $250 per-month for a member with 25 years of
service) for the first 24 months of the person's retirement.

Substitute Bill Compared to Original Bill:

The substitute bill provides the early retirement window benefits SERS Plans 2 and 3, as well as the PERS Plans 1, 2, and 3 included in the original bill.

Appropriation: None.

Fiscal Note: Available.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: (Original bill) This is an interesting approach, especially the $10 per month per year of service that could be used for medical benefits. We like the long window period provided by the bill.

(With concerns) We are concerned that SERS and TRS are not included in this bill. Why the age 60 limitation on eligibility for the 3 percent per-year reduction?

Testimony Against: None.

Testified: Representative Romero, prime sponsor; Lynn Maier, Washington Public Employees Association; Randy Parr, Washington Education Association; and Bev Hermanson, Washington Federation of State Employees.

(With concerns) Owen Linch, Joint Council of Teamsters; Doug Nelson, Public School Employees of Washington; and Sherry Appleton, Amalgamated Transit Union Legislative Council.

H-2371.1

SUBSTITUTE HOUSE BILL 2180

State of Washington 58th Legislature 2003 Regular Session

By House Committee on Appropriations (originally sponsored by Representatives Romero, Hunt, Sommers, Armstrong, Conway, Kessler, Kenney, Rockefeller and McDermott)

READ FIRST TIME 03/10/03.

AN ACT Relating to early retirement; reenacting and amending RCW 41.45.061; adding new sections to chapter 41.40 RCW; and adding new sections to chapter 41.35 RCW.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

NEW SECTION. **Sec. 1.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 1" to read as follows:

(1) Any member retiring between September 1, 2003, and February 29, 2004, may irrevocably elect, at the time of retirement, to withdraw all or a part of his or her accumulated contributions, other than any amount paid under RCW 41.50.165, and to receive, in lieu of the full retirement allowance provided by RCW 41.40.185, a reduction in the standard two percent allowance, of the actuarially determined amount of monthly annuity which would have been purchased by the contributions.

(2) No member electing the option provided in subsection (1) of this section may withdraw an amount of accumulated contributions which would lower his or her retirement allowance below the minimum allowance provided by RCW 41.40.1984 on the date the withdrawal is made.

(3) The monthly retirement allowance of a member electing the

option provided in subsection (1) of this section may be reduced even further pursuant to the options provided in RCW 41.40.188.

(4) If a retiree under this section enters employment with an employer, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month up to a maximum reduction of one hundred percent.

NEW SECTION. **Sec. 2.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 2" to read as follows:

(1) Any member with at least five service credit years who has attained at least age sixty shall be eligible to retire between September 1, 2003, and February 29, 2004, and to receive a retirement allowance computed according to RCW 41.40.620, except that a member retiring under this section shall have his or her retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(2) The monthly retirement allowance of a member retiring under this section may be reduced even further as provided in RCW 41.40.660.

(3) If a retiree under this section enters employment with an employer, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month up to a maximum reduction of one hundred percent.

NEW SECTION. **Sec. 3.** A new section is added to chapter 41.40 RCW under the subchapter heading "plan 3" to read as follows:

(1) Any member with at least five service credit years who has attained at least age sixty shall be eligible to retire between September 1, 2003, and February 29, 2004, and to receive a retirement allowance computed according to RCW 41.40.790, except that a member retiring under this section shall have his or her retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(2) The monthly retirement allowance of a member retiring under this section may be reduced even further as provided in RCW 41.40.845.

(3) If a retiree under this section enters employment with an

employer, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month up to a maximum reduction of one hundred percent.

Sec. 4. RCW 41.45.061 and 2001 2nd sp.s. c 11 s 13, 2001 2nd sp.s. c 11 s 12, and 2001 c 180 s 1 are each reenacted and amended to read as follows:

(1) The required contribution rate for members of the plan 2 teachers' retirement system shall be fixed at the rates in effect on July 1, 1996, subject to the following:

(a) Beginning September 1, 1997, except as provided in (b) of this subsection, the employee contribution rate shall not exceed the employer plan 2 and 3 rates adopted under RCW 41.45.060, 41.45.053, and 41.45.070 for the teachers' retirement system;

(b) In addition, the employee contribution rate for plan 2 shall be increased by fifty percent of the contribution rate increase caused by any plan 2 benefit increase passed after July 1, 1996;

(c) In addition, the employee contribution rate for plan 2 shall not be increased as a result of any distributions pursuant to section 309, chapter 341, Laws of 1998 and RCW 41.31A.020.

(2) The required contribution rate for members of the school employees' retirement system plan 2 shall equal the school employees' retirement system employer plan 2 and 3 contribution rate adopted under RCW 41.45.060, 41.45.053, and 41.45.070, except as provided in subsection (3) of this section.

(3) The member contribution rate for the school employees' retirement system plan 2 shall be increased by fifty percent of the contribution rate increase caused by any plan 2 benefit increase passed after September 1, 2000.

(4) The required contribution rate for members of the public employees' retirement system plan 2 shall be set at the same rate as the employer combined plan 2 and plan 3 rate.

(5) The required contribution rate for members of the law enforcement officers' and fire fighters' retirement system plan 2 shall be set at fifty percent of the cost of the retirement system.

(6) The employee contribution rates for plan 2 under subsections (3) and (4) of this section shall not include any increase as a result of any distributions pursuant to RCW 41.31A.020 and 41.31A.030.

(7) The required plan 2 and 3 contribution rates for employers shall be adopted in the manner described in RCW 41.45.060, 41.45.053, and 41.45.070.

<u>(8) The employee contribution rate for members of the public employees' retirement system plan 2 and school employees' retirement system plan 2 shall not include any increase as a result of this act.</u>

<u>NEW SECTION.</u> **Sec. 5.** A new section is added to chapter 41.40 RCW to read as follows:

(1) The monthly retirement allowance of a person retiring pursuant to this act shall be temporarily increased by ten dollars per month per year of service. This increase shall remain in effect for the first twenty-four months of the person's retirement.

(2) Because of the temporary nature of this section it shall not be codified.

<u>NEW SECTION.</u> **Sec. 6.** A new section is added to chapter 41.35 RCW under the subchapter heading "plans 2 and 3" to read as follows:

(1) Any member with at least five service credit years who has attained at least age sixty shall be eligible to retire between September 1, 2003, and February 29, 2004, and to receive a retirement allowance computed according to RCW 41.35.400 for plan 2 members or RCW 41.35.620 for plan 3 members, except that a member retiring under this section shall have his or her retirement allowance reduced by three percent per year to reflect the difference in the number of years between age at retirement and the attainment of age sixty-five.

(2) The monthly retirement allowance of a member retiring under this section may be reduced even further as provided in RCW 41.35.220.

(3) If a retiree under this section enters employment with an employer, the retiree's monthly retirement allowance will be reduced by five and one-half percent for every eight hours worked during that month up to a maximum reduction of one hundred percent.

<u>NEW SECTION.</u> **Sec. 7.** A new section is added to chapter 41.35 RCW to read as follows:

(1) The monthly retirement allowance of a person retiring pursuant to this act shall be temporarily increased by ten dollars per month per

year of service. This increase shall remain in effect for the first twenty-four months of the person's retirement.

(2) Because of the temporary nature of this section it shall not be codified.

--- END ---

SHB 2180 - H AMD
By Representative Sommers

On page 1, line 7, after "Any" insert "actively employed"

On page 2, beginning on line 7, strike all of sections 2, 3, and 4.

On page 4, line 10, after "increased by" strike all material through "service" on line 11 and insert "two hundred dollars"

On page 4, beginning on line 15, strike all of sections 6 and 7.

Correct the title, renumber the remaining sections consecutively, and correct any internal references accordingly.

EFFECT: Limits the retirement incentives to actively employed PERS 1 members. Removes sections of the bill that provide early retirement incentives to PERS and SERS plans 2 and 3. The monthly increase in benefits for two years following retirement in the window is changed from ten dollars per month per year of service to two hundred dollars, regardless of service.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**03/12/03**	**SHB 2180**

SUMMARY OF BILL:

This bill impacts the Public Employee's Retirement System (PERS) and School Employee's Retirement System (SERS) by offering retirement incentives to members retiring between September 1, 2003 and February 29, 2004.

PERS 1 members who retire during this window may withdraw all or part of their accumulated contributions and receive an allowance actuarially reduced to reflect the monthly annuity which would have been purchased by those contributions.

PERS 2/3 and SERS 2/3 members who have at least 5 years of service and reached at least age 60 would be eligible to retire during the window and receive an allowance reduced 3% per year for the difference in the number of years between their age at retirement and age 65.

PERS and SERS members who retire during this window would also receive a temporary increase in their retirement allowance of $10 per month for each year of service. This increase would remain in effect for the first 24 months of the member's retirement.

PERS and SERS members who retire under this bill and return to work with a PERS or SERS employer would have their retirement allowance reduced 5.5% for each 8 hours worked per month (for a maximum reduction of 100%).

The PERS 2 and SERS 2 employee contribution rate shall not be impacted by this bill.

Effective Date: 90 days after session.

CURRENT SITUATION:

Currently, PERS 1 members may retire with an unreduced benefit at age 60 with 5 years of service, at age 55 with 25 years of service, or at any age with 30 years of service.

Members of PERS 2 and SERS 2 may retire with an unreduced benefit at age 65 with 5 years of service. They are also eligible for a reduced benefit at age 55 if they have at least 20 years of service. PERS 2 and SERS 2 members who retire at age 55 with at least 30 years of service receive a 3% reduction for each year that their retirement age precedes age 65. Members who retire with at least 20 years of service, but less than 30 years of service, receive a larger actuarial reduction for early commencement of their benefit.

PERS 3 and SERS 3 members may receive the defined benefit portion of their retirement allowance at age 65 with 10 years of service, at age 65 with 5 years of service if 12 months of that service was earned after age 54, or at age 65 with 5 years service if that service was earned in Plan 2. They may also receive a benefit at age 55 with 30 years of service with the benefit reduced 3% per year for each year that their retirement age precedes age 65. They may also receive a benefit at age 55 with 10 years of service with the benefit actuarially reduced for each year that their retirement age precedes age 65.

MEMBERS IMPACTED:

About 10,100 active PERS 1 members would be affected by this bill. Of this total, about 1,300 members are 65 years of age or older and about 8,800 are under the age of 65. PERS 1 members must be eligible to retire to benefit under this bill.

There are approximately 8,800 PERS 2/3 members who would be affected by this bill. Of this total, about 2,300 members are 65 years of age or older; 1,700 between the ages of 60 and 64 who have 20 years of service or more; and another 4,800 members between the ages of 60 and 64 who have less than 20 years service (but more than 5 years of service). PERS 2/3 members must be at least age 60 with at least 5 years of service to benefit under this bill.

There are approximately 3,900 SERS 2/3 members who would be affected by this bill. Of this total, about 1,100 members are 65 years of age or older; 600 between the ages of 60 and 64 who have 20 years of service or more; and another 2,200 members between the ages of 60 and 64 who have less than 20 years service (but more than 5 years of service). SERS 2/3 members must be at least age 60 with at least 5 years of service to benefit under this bill.

All members who elect to retire under this bill receive $10 per month for each year of service for the first 2 years of their retirement. PERS 1 members will have the opportunity to retire with a lump sum plus a reduced retirement allowance. PERS 2/3 and SERS 2/3 members under age 65 receive a subsidized 3% early retirement reduction instead of a full actuarial reduction.

The $10 per month (times years of service) temporary annuity will provide an incentive for all affected PERS and SERS members to retire. The lump sum benefit for PERS 1 members will provide an additional incentive for some affected PERS 1 members to retire. The lump sum benefit, however, will also reduce the amount of their guaranteed retirement allowance (prior to lump sum). The subsidized early retirement reduction factor will provide an additional incentive for affected PERS 2/3 and SERS 2/3 members under age 65 to retire. This incentive will likely vary depending on the amount of the member’s retirement allowance in relation to their pre-retirement income. In other words, the larger the retirement allowance, the larger the incentive to retire. All else being equal, the more service a member has at retirement, the larger the retirement allowance.

ASSUMPTIONS:

The following table contains the retirement probability assumptions utilized in this fiscal note:

System / Plan / Characteristics	Retirement Assumption
Plan 1 (employed and eligible to retire)	50%
Plan 2/3 age 65 and older	Twice the normal rate
Plan 2/3 age 60-64 with 20 or more years of service	100%
Plan 2/3 age 60-64 with less than 20 years of service	Normal rate for those with 20 years of service

FISCAL IMPACT:

Description:

For PERS 1, a large part of the cost stems from the election of the affected members to retire earlier than our ongoing assumptions indicate, rather than from any benefits provided under this bill. For PERS 2/3 and SERS 2/3, the costs arise primarily from the extra benefits provided under this bill.

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System and the required actuarial contribution rate as shown below:

		Public Employees' Retirement System:		
(Dollars in Millions)		Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS 1	$ 12,244	$ 102	$ 12,346
	PERS 2/3	12,428	65	12,493
(The Value of the Total Commitment to all Current Members)	SERS 2/3	1,610	13	1,623
Unfunded Actuarial Accrued Liability (The Portion of the Plan 1 Liability that is Amortized at 2024)	PERS 1	$ 860	$ 117	$ 977
Unfunded Liability (PBO)	PERS 1	$ 301	$ 148	$ 449
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	PERS 2/3	(4,874)	128	(4,746)
	SERS 2/3	(724)	22	(702)
Required Contribution Rate	PERS	2.05%	**.24%**	2.29%
(Employer)*	SERS	1.74%	**.24%**	1.98%

The increase includes .09% for the Plan 1 UAAL and .15% for employer normal cost in Plan 1 or Plan 2/3.

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures is projected to be:

Effective September 1, 2003	**PERS**	**SERS**
Increase in Contribution Rates:		
Employee	0.00%	0.00%
Employer State	0.24%	0.24%
Costs (in Millions):		
2003-2005		
State:		
General Fund	$ 6.7	$ 2.8
Non-General Fund	10.7	0.0
Total State	**$ 17.4**	**$ 2.8**
Local Government	$ 15.5	$ 2.4
2005-2007		
State:		
General Fund	$ 8.1	$ 3.6
Non-General Fund	13.2	0.0
Total State	**$ 21.3**	**$ 3.6**
Local Government	$ 19.0	$ 3.2
2003-2028		
State:		
General Fund	$ 166.5	$ 79.5
Non-General Fund	272.3	0.0
Total State	**$ 438.8**	**$ 79.5**
Local Government	$ 389.7	$ 70.4

State Actuary's Comments:

The actual cost of this bill will be based on the actual number of affected members who elect to participate in the window. We have not included the impact of transfers from PERS 2 to PERS 3. The impact for the purposes of this fiscal note, however, is negligible.

It is assumed that terminated-vested members are not eligible for this window.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2001 actuarial valuation report of the Public Employee's Retirement System and School Employee's Retirement System.

2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.

3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report are described in the body of the fiscal note.

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.

5. This fiscal note is intended for use only during the 2003 Legislative Session.

6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.

7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:
- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all Plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

SENATE BILL 5657

State of Washington 58th Legislature 2003 Regular Session

By Senators Roach, Fraser, Winsley, Eide, Benton, Rasmussen and Shin

Read first time 02/05/2003. Referred to Committee on Ways & Means.

AN ACT Relating to public employees' retirement system, plan 1 members' monetary compensation for accrued sick leave; reenacting and amending RCW 41.04.340; providing an expiration date; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.04.340 and 1998 c 254 s 1 and 1998 c 116 s 2 are each reenacted and amended to read as follows:

(1) An attendance incentive program is established for all eligible employees. As used in this section the term "eligible employee" means any employee of the state, other than eligible employees of the community and technical colleges and the state board for community and technical colleges identified in RCW 28B.50.553, and teaching and research faculty at the state and regional universities and The Evergreen State College, entitled to accumulate sick leave and for whom accurate sick leave records have been maintained. No employee may receive compensation under this section for any portion of sick leave accumulated at a rate in excess of one day per month. The state and regional universities and The Evergreen State College shall maintain

complete and accurate sick leave records for all teaching and research faculty.

(2) In January of the year following any year in which a minimum of sixty days of sick leave is accrued, and each January thereafter, any eligible employee may receive remuneration for unused sick leave accumulated in the previous year at a rate equal to one day's monetary compensation of the employee for each four full days of accrued sick leave in excess of sixty days. Sick leave for which compensation has been received shall be deducted from accrued sick leave at the rate of four days for every one day's monetary compensation.

(3)(a) Except under (b) of this subsection, at the time of separation from state service due to retirement or death, an eligible employee or the employee's estate may elect to receive remuneration at a rate equal to one day's current monetary compensation of the employee for each four full days of accrued sick leave.

(b)(i) At the time of separation from state service due to retirement or death, an eligible employee who is a member of the public employees' retirement system, plan 1 or the employee's estate may elect to receive remuneration at a rate equal to one day's current monetary compensation of the employee for each two full days of accrued sick leave.

(ii) Notice of intent to retire under (b)(i) of this subsection must be made by September 1, 2003. The employee's retirement must be effective before January 1, 2004.

(4) Remuneration or benefits received under this section shall not be included for the purpose of computing a retirement allowance under any public retirement system in this state.

(5) Except as provided in subsections (7) through (9) of this section for employees not covered by chapter 41.06 RCW, this section shall be administered, and rules shall be adopted to carry out its purposes, by the Washington personnel resources board for persons subject to chapter 41.06 RCW: PROVIDED, That determination of classes of eligible employees shall be subject to approval by the office of financial management.

(6) Should the legislature revoke any remuneration or benefits granted under this section, no affected employee shall be entitled thereafter to receive such benefits as a matter of contractual right.

(7) In lieu of remuneration for unused sick leave at retirement as provided in subsection (3) of this section, an agency head or designee may with equivalent funds, provide eligible employees with a benefit plan that provides for reimbursement for medical expenses. This plan shall be implemented only after consultation with affected groups of employees. For eligible employees covered by chapter 41.06 RCW, procedures for the implementation of these plans shall be adopted by the Washington personnel resources board. For eligible employees exempt from chapter 41.06 RCW, and classified employees who have opted out of coverage of chapter 41.06 RCW as provided in RCW 41.56.201, implementation procedures shall be adopted by an agency head having jurisdiction over the employees.

(8) Implementing procedures adopted by the Washington personnel resources board or agency heads shall require that each medical expense plan authorized by subsection (7) of this section apply to all eligible employees in any one of the following groups: (a) Employees in an agency; (b) employees in a major organizational subdivision of an agency; (c) employees at a major operating location of an agency; (d) exempt employees under the jurisdiction of an elected or appointed Washington state executive; (e) employees of the Washington state senate; (f) employees of the Washington state house of representatives; (g) classified employees in a bargaining unit established by the Washington personnel resources board; or (h) other group of employees defined by an agency head that is not designed to provide an individual-employee choice regarding participation in a medical expense plan. However, medical expense plans for eligible employees in any of the groups under (a) through (h) of this subsection who are covered by a collective bargaining agreement shall be implemented only by written agreement with the bargaining unit's exclusive representative and a separate medical expense plan may be provided for unrepresented employees.

(9) Medical expense plans authorized by subsection (7) of this section must require as a condition of participation in the plan that employees in the group affected by the plan sign an agreement with the employer. The agreement must include a provision to hold the employer harmless should the United States government find that the employer or the employee is in debt to the United States as a result of the employee not paying income taxes due on the equivalent funds placed

into the plan, or as a result of the employer not withholding or deducting a tax, assessment, or other payment on the funds as required by federal law. The agreement must also include a provision that requires an eligible employee to forfeit remuneration under subsection (3) of this section if the employee belongs to a group that has been designated to participate in the medical expense plan permitted under this section and the employee refuses to execute the required agreement.

NEW SECTION. **Sec. 2.** Section 1 of this act expires July 1, 2004.

NEW SECTION. **Sec. 3.** This act is necessary for the immediate preservation of the public peace, health, or safety, or support of the state government and its existing public institutions, and takes effect immediately.

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FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	**035**	**2/7/03**	**SB 5657/HB 1713**

SUMMARY OF BILL:

This bill impacts the Public Employees' Retirement System Plan 1 (PERS 1) by providing a retirement window in which state employees may cash out accrued sick leave at twice the normal rate. A member who provides a notice of intent to retire before September 1, 2003, and whose retirement is effective before January 1, 2004, may receive remuneration at a rate equal to 1 day's current pay for each 2 full days of accrued sick leave.

This sick leave cash-out is not included in the member's average final compensation when computing their retirement allowance.

Effective Date: Immediately. This act expires on July 1, 2004.

CURRENT SITUATION:

Currently, PERS 1 members receive, upon retirement, a cash-out of their unused sick leave at the rate of 1 day's current pay for each 4 full days of accrued sick leave.

This sick leave cash-out is not included in the member's average final compensation when computing their retirement allowance.

MEMBERS IMPACTED:

There are approximately 3 to 4,000 state employees who are currently eligible to retire in PERS 1. This group of state employees could potentially retire during the specified window and receive an enhanced cash-out of their accrued sick leave.

Example:

Currently, upon retirement, a PERS 1 member who has accrued 72 days of sick leave and earns a salary of $47,000 is able to cash out 18 days of sick leave for a one-time payment of $3,254. Under this bill, the same member would be able to cash out 36 days of sick leave for a one-time payment of $6,508.

FISCAL IMPACT:

The additional cash-out benefit provided under this bill could conceivably provide an incentive to retire. We do not expect, however, that this incentive is large enough to significantly alter the normal retirement experience of the plan. The cost of this bill, therefore, is insufficient to affect contribution rates.

Smoothing Corridor

(November 18, 2003)

Issue	Add a market value corridor to the existing asset smoothing method used to determine contribution rates for the state retirement systems; by request of the State Actuary.
Staff	Matthew M. Smith - 360-753-9144 State Actuary
Members Impacted	This proposed change would affect future employer contribution rates in PERS, TRS, SERS, LEOFF and WSP. It would also affect future employee contribution rates in WSP and future contribution rates for plan 2 members in PERS, TRS, SERS and LEOFF.
Current Situation	The current asset smoothing method has no restrictions on the amount that the "smoothed" or actuarial value of assets may deviate from the underlying market value of assets.
History	There have been no previous efforts to address this issue. Chapter 11, Laws of 2003, E1, extended the length of the smoothing period for larger gains and losses (up to 8 years) and shortened the length of the smoothing period for smaller gains and losses.

Policy Analysis

The funding policy of the Legislature is contained in Chapter 41.45 RCW - Actuarial Funding of State Retirement Systems. RCW 41.45.010 outlines the intent to achieve several funding goals. Two of the goals listed in that section specifically pertain to this issue and are listed below:

- To provide a dependable and systematic process for funding the benefits to members and retirees of the Washington State Retirement Systems;

- To establish predictable and long-term employer contribution rates which will remain a relatively constant proportion of future state budgets.

The asset smoothing method adopted during the 2003 legislative session (Chapter 11, Laws of 2003, E1) was intended to address the volatility of contribution rates under the aggregate funding method when used in combination with the existing asset allocation policy. The longer smoothing period employed under the new method for larger annual asset gains and losses will reduce the volatility of future contribution rates once they return to their long-term expected levels. Without a direct relationship with the underlying market value of assets, however, it is conceivable that during extended periods of asset losses or gains, the actuarial value of assets may produce contribution rates that are not reasonable or dependable.

Options

The most common approach in the private sector is to apply a market value corridor on the actuarial value of assets.

Example of Market Value Corridor

a. Market value of assets at valuation date	$1,000,000
b. Deferred investment gains/(losses)	($250,000)
c. Unadjusted actuarial value of assets (a-b)	$1,250,000
d. 80% of the market value of assets (0.80 x a)	$800,000
e. 120% of the market value of assets (1.20 x a)	$1,200,000
f. Actuarial value of assets at valuation date (c, but not less than d nor greater than e)	$1,200,000

The example above illustrates the application of a 20% market value corridor. This is the required market value corridor for qualified private-sector plans as regulated by the IRS for purposes of determining minimum funding and maximum tax-deductible employer contributions. Public sector plans are exempt from these regulations.

Width of Corridor

The appropriate width of the corridor will depend on the plan sponsor's desire to balance two competing objectives:

- Contribution rate stability; and
- Contribution rate adequacy

The volatility of future investment returns depends, in large part, on the plan's asset allocation policy. The heavier the weight in equity-type investments (stocks, real estate, etc.), versus fixed-income investments (bonds, mortgages, etc.), the larger the potential for volatility in future investment returns.

Turning to contribution rates, the narrower the smoothing corridor (closer to market value), the larger the potential for volatility in future contribution rates. On the other hand, the wider the smoothing corridor (away from market value), the smaller the potential for volatility in future contribution rates. However, without a market value corridor, it is conceivable that during extended periods of asset losses the actuarial value of assets may produce contribution rates that are inadequate.

Recommendation of State Actuary

- 30% market value corridor

A 30% corridor would strike the appropriate balance between contribution rate stability and contribution rate adequacy for the funding of benefits in the state retirement systems. The appropriateness of the asset smoothing corridor should be reviewed periodically against the goals of the actuarial funding chapter.

Fiscal Impact

Estimated long-term fiscal impact: None

As of the latest actuarial valuation report (9/30/2002), the ratio of the actuarial value of assets to the market value of assets was 130% (for all systems combined). This ratio varies by system and plan (see table below).

Ratio of Actuarial to Market Value of Assets as of 9/30/2002

PERS 1	PERS 2/3	TRS 1	TRS 2/3	SERS 2/3	LEOFF 1	LEOFF 2	WSP
131%	130%	135%	132%	131%	125%	124%	125%

Ratio of Actuarial to Market Value of Assets as of 9/30/2003*

PERS 1	PERS 2/3	TRS 1	TRS 2/3	SERS 2/3	LEOFF 1	LEOFF 2	WSP
118%	116%	124%	120%	116%	110%	109%	110%

* Estimate

The proposed smoothing corridor would begin with actuarial studies performed after July 1, 2004 and as a result would first apply to the September 30, 2003 actuarial valuation. There would be no long-term impact on projected contribution rates, based on an investment return assumption of 8% per year, since the actuarial value of assets for each system and plan is within the 30% corridor as of September 30, 2003.

Actual investment experience over short-term periods will vary. Successive years of significant investment gains or losses, relative to the 8% assumption, over a short-term experience period may cause the actuarial value of assets to fall outside the proposed smoothing corridor. Under these circumstances, the proposed smoothing corridor would decrease contribution rates when plan asset values fall below the corridor and increase contribution rates when asset values exceed the corridor.

Smoothing Corridor

AN ACT Relating to establishing an asset smoothing corridor for actuarial valuations used in the funding of the state retirement systems; and amending RCW 41.45.020 and 41.45.035.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

Sec. 1. RCW 41.45.020 and 2003 c 295 s 8 are each amended to read as follows:

As used in this chapter, the following terms have the meanings indicated unless the context clearly requires otherwise.

(1) "Council" means the pension funding council created in RCW 41.45.100.

(2) "Department" means the department of retirement systems.

(3) "Law enforcement officers' and fire fighters' retirement system plan 1" and "law enforcement officers' and fire fighters' retirement system plan 2" means the benefits and funding provisions under chapter 41.26 RCW.

(4) "Public employees' retirement system plan 1," "public employees' retirement system plan 2," and "public employees' retirement system plan 3" mean the benefits and funding provisions under chapter 41.40 RCW.

(5) "Teachers' retirement system plan 1," "teachers' retirement system plan 2," and "teachers' retirement system plan 3" mean the benefits and funding provisions under chapter 41.32 RCW.

(6) "School employees' retirement system plan 2" and "school employees' retirement system plan 3" mean the benefits and funding provisions under chapter 41.35 RCW.

(7) "Washington state patrol retirement system" means the retirement benefits provided under chapter 43.43 RCW.

(8) "Unfunded liability" means the unfunded actuarial accrued liability of a retirement system.

(9) "Actuary" or "state actuary" means the state actuary employed under chapter 44.44 RCW.

(10) "State retirement systems" means the retirement systems listed in RCW 41.50.030.

(11) "Classified employee" means a member of the Washington school employees' retirement system plan 2 or plan 3 as defined in RCW 41.35.010.

(12) "Teacher" means a member of the teachers' retirement system as defined in RCW 41.32.010(15).

(13) "Select committee" means the select committee on pension policy created in RCW 41.04.276.

<u>(14) "Actuarial value of assets" means the value of pension plan investments and other property used by the actuary for the purpose of an actuarial valuation.</u>

Sec. 2. RCW 41.45.035 and 2003 1st sp.s. c 11 s 1 are each amended to read as follows:

(1) Beginning July 1, 2001, the following long-term economic assumptions shall be used by the state actuary for the purposes of RCW 41.45.030:

(a) The growth in inflation assumption shall be 3.5 percent;

(b) The growth in salaries assumption, exclusive of merit or longevity increases, shall be 4.5 percent;

(c) The investment rate of return assumption shall be 8 percent; and

(d) The growth in system membership assumption shall be 1.25 percent for the public employees' retirement system, the school employees' retirement system, and the law enforcement officers' and fire fighters' retirement system. The assumption shall be .90 percent for the teachers' retirement system.

(2)<u>(a)</u> Beginning with actuarial studies done after July 1, 2003, changes to plan asset values that vary from the long-term investment rate of return assumption shall be recognized <u>in the actuarial value of assets</u> over a period that varies up to eight years depending on the magnitude of the deviation of each year's investment rate of return relative to the long-term rate of return assumption. <u>Beginning with actuarial studies performed after July 1, 2004, the actuarial value of assets shall not be greater than one hundred thirty percent of the market value of assets as of the valuation date or less than seventy percent of the market value of assets as of the valuation date.</u> Beginning April 1, 2004, the council, by affirmative vote of four councilmembers, may adopt changes to this asset value smoothing technique. Any changes adopted by the council shall be subject to revision by the legislature.

<u>(b) The state actuary shall periodically review the appropriateness of the asset smoothing method in this section and recommend changes to the legislature as necessary.</u>

--- END ---